ALWAYS BE CLOSING:
IMPROVING FINANCIAL CLOSING WITH CLOUD ERP

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Overview

Closing out the record-to-report process quickly and accurately isn't an easy task. As complexities from different business units, systems, and geographies add up, the challenge increases. Mid-market companies occupy an interesting spot: they can be larger and more complex than their smaller counterparts but often have fewer resources to address that complexity than larger companies. Thankfully, size isn't all that matters in this equation. By looking at high-performing companies, regardless of size, while also taking into account which elements can be realistically changed, mid-market companies can learn lessons from peers of all sizes to improve their own approaches to the financial close process.

Mid-Market Financial Close: Is It Just About the Size?

It may be tempting to make some assumptions about the state of financial close for mid-market companies based solely on their size. Perhaps the closing process gets slower as business size – and related complexity – increases. Alternatively, it may get faster as access to technology resources scales up alongside the business. If the answer were so simple, this paper could be wrapped up much more quickly as well. As it turns out, however, there is some additional analysis required to drill down deeper for a more accurate appraisal.

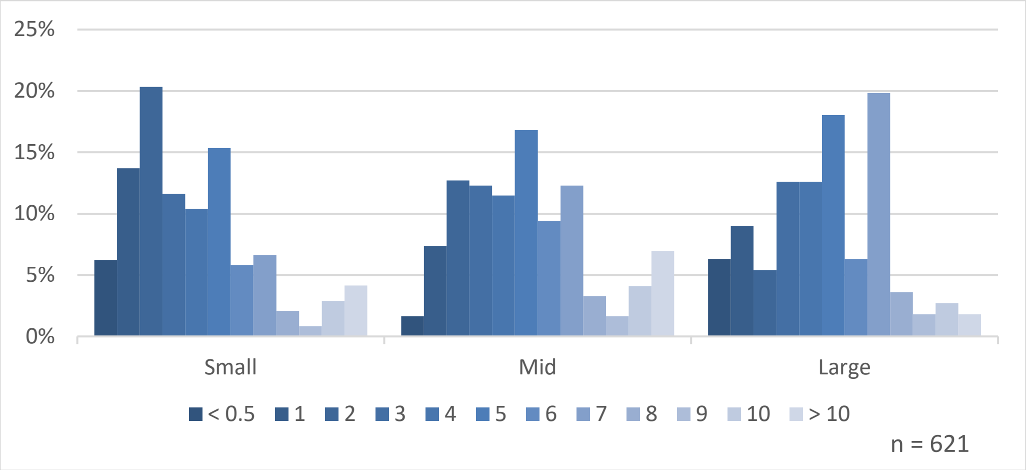
As illustrated by Figure 1 below, the average time-to-close can vary widely even between companies of comparable size. Some small companies struggle to close their books quickly, and some large companies are among the most efficient of the group. In this view, mid-market organizations appear to be in the toughest spot, as their average closing time (5.1 days) is slower than both small businesses (3.9 days) and large businesses (4.7 days). Could it be that they have more complexity than their smaller peers while also having relatively smaller technology budgets when compared to larger businesses?

Company Size

Aberdeen defines company size using the following groupings:

- **Small**: 1–500 Employees
- **Mid-Market**: 501–5,000 Employees
- **Large**: 5,001+ Employees

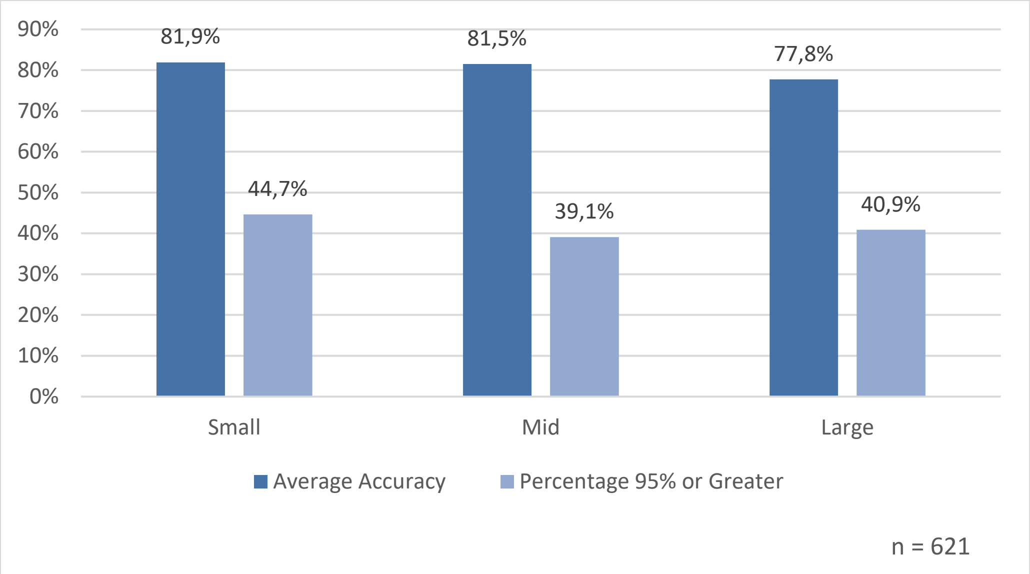
Figure 1: Average Days to Close by Organization Size



Source: Aberdeen, June 2023

The news isn't all bad for mid-market companies. Figure 2, below, offers some positivity. While mid-market firms are, on average, slower to close their books than others, the accuracy of their financial reporting is higher than for large businesses and just shy of the small businesses we surveyed. It is important to balance speed with accuracy, as a quick close isn't especially helpful if it requires a restatement later on. Unfortunately, this muddies the waters in our analysis, as there is no clear, simple answer when looking only at this single business attribute. We'll need to take a different tack.

Figure 2: Financial Report Accuracy by Organization Size



Source: Aberdeen, June 2023

If we want to identify the capabilities that drive quick and accurate financial close, we will need to change the way we look at the subject. To do this, we'll identify those responding companies who have shown the best performance and then see if there are any attributes that set them apart from their peers. This new perspective should be quite enlightening.

Lessons Learned from the Quickest Closers

To create these new groupings, we reorganized each responding company into one of three categories based on their reported time-to-close. The fastest companies were those that closed their books in 2 days or fewer (**1.4 days** on average). They were followed by a middle group who closed in between 3 and 5 days (**4.1** on average). The slowest group, which required six or more days to close the books (**8.0** on average), completes our new set. To ensure we don't compromise quality in the pursuit of speed, we confirm that the fastest closers are also the most accurate, on average (51.4% report 95%+ accuracy, as compared to 39.7% for the middle group, and 34.9% for the slowest). Overall, these should be balanced groupings from which we can make insightful observations.

Company Size and Closing Speed

Average number of days to close the month, including preparation of financial statements:

- **Small**: 3.9 days
- **Mid-Market**: 5.1 days
- **Large**: 4.7 days

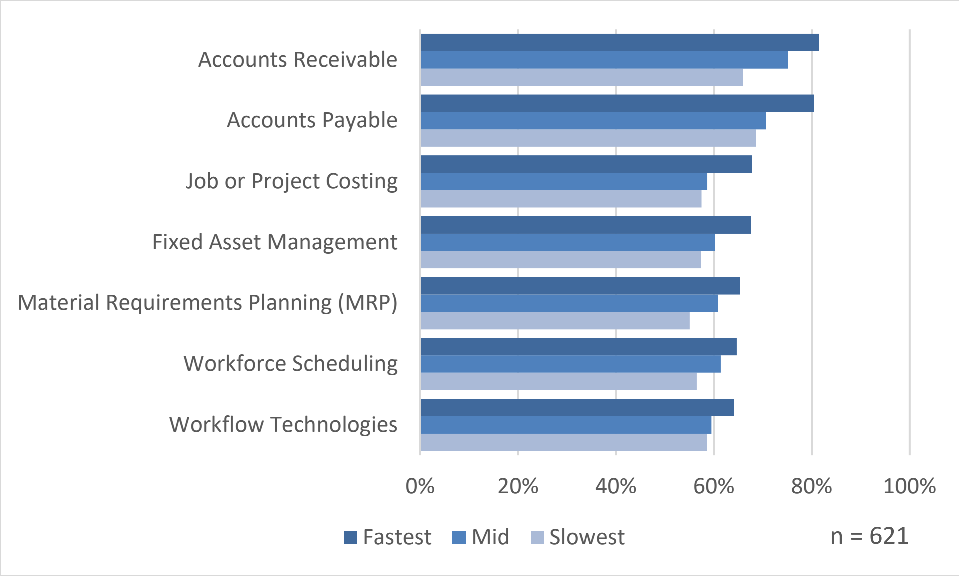
As a first step, we can look at what faster companies are able to do differently than the others. As illustrated in Table 1 below, we can see some areas that begin to shed light on the performance gaps. One big takeaway from these items is the **importance of integration and data accuracy**. Data entry at the point of activity means transaction details are input as soon as possible, helping to avoid miscommunication or mistake with delayed data entry – or data entry by a different employee entirely. Having integrated systems means the avoidance of manual data entry or the potentially error-prone process of manually exporting from one system to upload to another. The former may negatively impact accuracy, while the latter can compromise completeness. For a process that is reliant on having accurate and complete information, those errors can be incredibly costly.

Table 1: Capability Differences by Closing Speed

	Fastest	Middle	Slowest
Data entry at the point of activity	**73%**	**60%**	**50%**
Operations are integrated and coordinate with customer service, logistics, and delivery organizations	**63%**	**58%**	**55%**
Centralized management of work instructions, documents, best practices, and reports	**61%**	**58%**	**57%**
Ability to produce variance reports	**58%**	**52%**	**44%**
Fully integrated view of all customer information	**58%**	**51%**	**47%**
Customer relationship management (CRM) integrated into ERP	**56%**	**51%**	**47%**

With an eye on how integration may impact the efficiency of the closing process, it is helpful to see which processes are handled by modules of the underlying ERP system versus being managed in separate solutions. The breakouts shown below in Figure 3 certainly paint a logical picture. With accurate closing reliant on knowledge of what has been paid and what is owed, seeing Accounts Receivable and Accounts Payable handled within the core system of record makes sense. Job and product costing offer granularity that can help properly categorize spending between cost of goods sold (or cost of sales) versus sales and general administrative expenses. Similarly, integration with materials requirements planning can help better allocate inventory costs between raw materials, work in process, and finished goods. Workflow technologies, as an overlay, help guide systems users throughout different processes, helping to increase data accuracy on the front-end.

Figure 3: Current Usage of ERP Modules by Closing Speed



Source: Aberdeen, June 2023

ERP Complexity and Closing Speed

Average number of different ERPs or ERP instances:

- **Fastest Closers**: 4.1
- **Middle Closers**: 9.1
- **Slowest Closers**: 16.6

With the analysis so far, we're beginning to see the importance of data accuracy and data availability (via integration) to the financial close process. Across all company sizes, these elements remain consistent. What other elements might explain the complexities that impact performance?

Portrait of a Fast-Closing Organization

In addition to differences in systems and modules, there are a few other attributes that help explain the performance differences between groups of responding companies. As shown below in Table 2, fast closers have a more consolidated ERP landscape (4.1 different systems, on average) than their middle- and slowest-performing peers (9.1 and 16.6, respectively). Fewer systems to consolidate simplifies the closing process. They are also more active in keeping their ERP systems up-to-date, whether by enabling automatic updates or scheduling manual updates at least once per year. This may be due to more frequent fixes of bugs that impact reporting accuracy or more attentive oversight of system issues for internal workarounds to existing issues. These aren't the only differences, however.

There are two more aspects of faster-performing closes that recognize how simplicity can play a significant role in efficiency. Fast performers are less likely to need to manage intercompany transfers at all, which can both save a significant amount of time and remove a source of data errors. They are also less likely to need multi-currency or multi-language support. To the extent that multi-currency support is a factor, removing the need to track and manage foreign currency conversions for each transaction reduced another potential area of complexity.

What is interesting is that these attributes aren't simply a function of company size. Some larger responding companies are domestic and some smaller are international. Some larger companies do not have complex subsidiary structures, and some smaller companies do. Even if they are unlikely to be a part of an organization's improvement strategy, it can help better understand which areas impact efficiency that can be more reliably addressed.

Table 2: Structural Differences Between Performance Groups

	Fastest	Middle	Slowest
Number of different ERP systems or ERP versions	**4.1**	**9.1**	**16.6**
Upgrade ERP automatically or at least once per year	**60%**	**51%**	**41%**
Do NOT have intercompany transfers	**25%**	**14%**	**8%**
No plans to implement multi-language / multi-currency functionality	**21%**	**21%**	**14%**

Improving Financial Close: Practical Lessons from Top Performers

We've covered a good amount of ground in our examination of the financial close process and performance improvement potential for mid-market companies. While not every differentiator will be practical to emulate, there are some key lessons that should be nearly universal:

- **Centralization aids efficiency and accuracy.** Whether because of different offices or business units implementing their own solutions or acquisitions bringing new companies with their own technology infrastructure along with them, disparate and disconnected systems dramatically increase the complexity of closing the books. Bringing the data from those systems together into one central solution (or, at least, as few systems as practicable) can yield huge benefits. This is an area where companies have been looking to the cloud for a path forward. Cloud ERP is a deployment method that by nature is well-suited to providing a single access point for employees spread across different business units and geographies.

- **Integration also eliminates obstacles.** Since consolidating onto a single platform that handles every business process is unrealistic for most companies, quality integrations are paramount. You can prioritize those solutions that have the biggest impact on the closing process: AR and AP for debts and payments, supply chain management for inventory at different stages, expense reporting for proper spend allocation, and procurement/purchasing as another source of data for allocation between cost of sales and SG&A. You may not be able to fully integrate everything, but this is a good opportunity for incremental improvement.

- **Balance is key.** As we saw when looking at performance differences, speed is not the only important metric. Quick but inaccurate (or incomplete) isn't a great way to define your goals. This is especially important for publicly traded companies, as inaccuracies don't just complicate forecasting and management strategy but can also bring with them the ire (and penalties) of regulatory agencies. When it comes to financial data: get it all, get it right, and get it done.

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