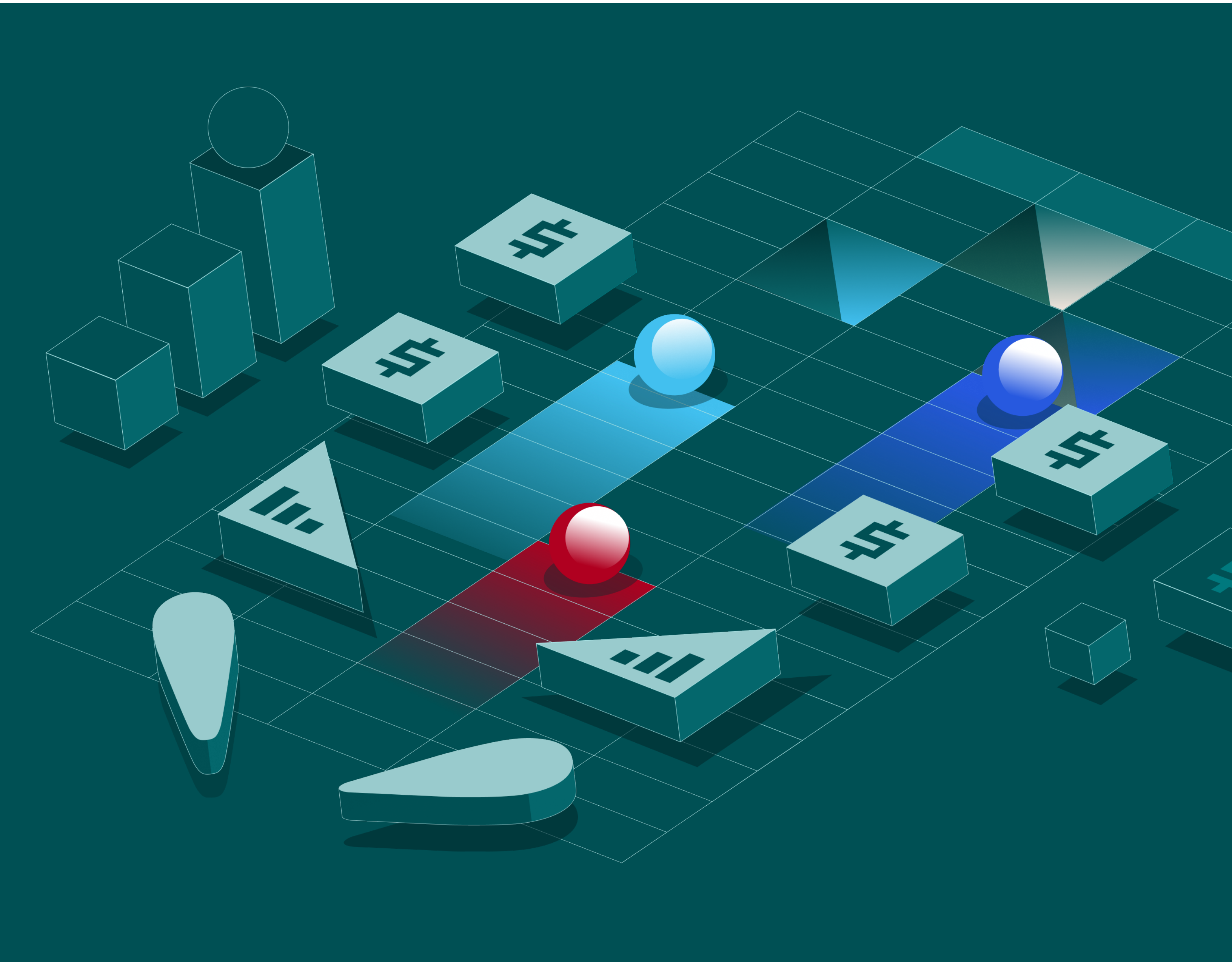
Outcome-Based Reporting

The CFO's Path to a Strategic Seat at the Table



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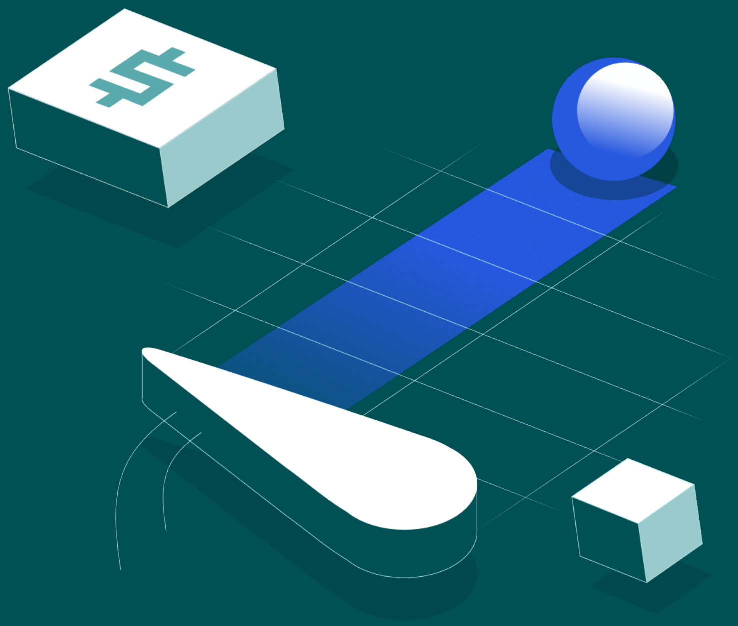
The Room Where It Happens

As CFO, you sit in a unique position within your business. Where other business leaders may only have visibility into one department, you're the neutral party that connects data from all corners of the organization. It's the perfect vantage point to identify insights that bring strategic value.

And yet, CFOs have been fighting for years to earn legitimacy as strategic partners. You want to be in the room where it happens. But too often, you're stuck in the role of after-the-fact CFO—delivering backward-looking reports that the rest of the business pushes aside.

The key to becoming a value-add CFO is to embrace outcome-based reporting, a philosophy that enables real-time budgeting and planning. Here, you'll learn how to go from after-the-fact reporting that the business ignores to more agile planning processes that help your organization make profitable decisions.



What Is Outcome-Based Reporting?

Outcome-based reporting is a philosophy that asks: what is the intent of your report and measurement? What outcomes are you looking for? Then focuses on the reports and metrics that monitor, measure, and help ensure those desired outcomes.

If you're looking to measure your forecast accuracy or keep people to a budget, then reporting performance vs. budgets is important. But if you're looking to drive business results beyond budget keeping, you need to think of the outcomes your business wants (e.g., higher sales, increased gross profit, successful new product line launched), and start measuring and monitoring accordingly.

This approach to reporting is a departure from classic methods like budget comparisons, which rely heavily on annual planning processes that don't keep pace with business change. Instead, outcome-based reporting helps finance and the rest of the business work together in an agile way. When done well, outcome-based reporting aligns the entire organization on operational metrics that matter most and helps finance surface strategic insights that can drive greater performance and growth.

Traditional budget comparisons, while extremely valuable and necessary for fiscal responsibility, can be a detriment to the business if CFOs use them in isolation. They'll show you whether or not you hit your revenue and expense targets. But all that reveals is how effectively you predicted the future when you set your original budget.

When you're managing strictly to numbers in a spreadsheet, your partners across the business start managing to the budget—spending more or less based on where they are compared to old targets. If "what is measured is managed," then measuring budget variances means you're only managing to the budget, not to business needs.

At its core, outcome-based reporting focuses on results, not a sum of money you spent on certain items in a certain timeframe. When you embrace that philosophy, your planning process becomes more goal-oriented and strategic.

How to Build Outcome-Based Reports

You build effective outcome-based reports and processes by maintaining a constant focus on financial impact. That means starting with one question in every planning process: **what should we be reporting on?**

It's a simple question with a potentially complicated answer. Where finance teams go wrong is when they build reports to answer anything and everything about the business. Effective reports focus on the three to five KPIs that matter most to your organization. From there, you can start digging into analyses that reveal deeper insights.

Start with Cash Flow and Profitability

Reports should revolve around operational metrics that drive two things—cash flow and profitability. These are the North Star indicators of financial impact that create the foundation for effective reporting, planning, and budgeting.

When you focus on metrics that directly impact cash flow and profitability, you're putting yourself in a position to make data-driven decisions about planning and budgeting in an agile way. For example, a report might tell you whether or not you're hitting your margin targets for the quarter. With that information, you can start asking (and answering) questions like:

- Are we missing our margin target because we're paying suppliers too much? Maybe you need to raise prices.
- Is there alignment between the headcount we need to deliver the product and the margins we're seeing vs. our target? If you're increasing headcount and salaries, maybe you need to raise prices.

- What type of client is “good” for the business? If a particular type of client consistently doesn’t pay, or it’s a struggle to get paid, maybe that business is not a worthwhile focus for the sales team.
- What is the right mix of sales leaders and sales support, their client capacity, and ongoing costs? Sales people generate direct revenue and could have the bulk of their costs directly tied to that revenue in the form of commissions. Sales support is less tied to revenue and can often get lost in the world of “Selling, General, and Administrative” expenses.

These are the kinds of questions you can’t answer with traditional budget comparisons. Rather than focusing all of your reporting efforts on whether or not departments hit their budget from the annual plan, find ways to shift attention to tangible business results.

Align on the operational metrics that drive cash flow and profitability so you’re always surfacing insights that can inform strategic business decisions.

Get a Deep Understanding of How the Business Makes Money

To understand the drivers of cash flow and profitability you have to take a step back and first understand the meta question, **how does your business make money?**

It’s not enough to understand how your business makes money on a high level. You can’t answer deep questions about the business without deep knowledge of the business model. And that means maximizing visibility of all the data points across the customer journey, product journey, and everything in between.

But modeling that kind of deep understanding of the business isn’t easy for an FP&A function. You’re never going to be able to model every detail perfectly—and you shouldn’t strive for that.

Once you’re able to understand what your business is delivering to its customers, how you’re delivering it, and who you’re delivering it to, you can start asking the right questions to narrow your focus to the metrics that matter most to your business.

The Revenue Side

To understand revenue, start with the process of how your business charges customers and what they charge them for. Having a handle on all the accounting and revenue recognition data that comes with that process is critical to your outcome-based reports.

Those are the easy parts of understanding revenue for finance. More importantly, you need to understand what exactly you're selling. That means asking questions like:

- Are we selling software, a physical product, services, or some combination?
- If we're selling software, is it usage-based or subscription?
- Is our product or service repeatable in some way?
- What are the upsell and cross-sell implications of our product?

Finance doesn't suddenly need to become technical product experts. But without this understanding of the components of revenue generation, you'll never be able to create reports that uncover strategic insights.

Example: Outcome-Based Planning for Account Renewals

Renewal forecasts are the perfect example to highlight the difference between truly understanding the revenue side of your business and only having surface-level insight.

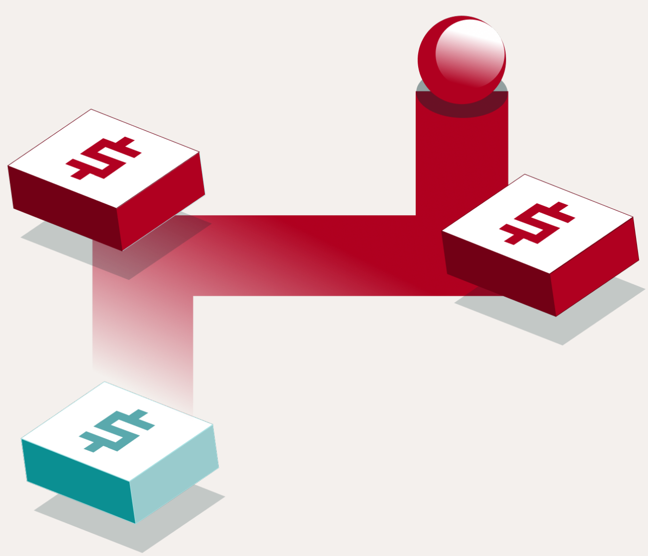
The baseline for renewal forecasting is to use a historical renewal rate with a slight increase as a stretch goal. This would lead to reporting that merely showed whether you were on- or off-target. If that's the basis for planning and ongoing reporting, finance will never find opportunities to proactively communicate with leadership about potential shortfalls or lessons from what went well or what didn't after the fact.

The difference between traditional and outcome-based reporting is understanding the "why" behind an assumption that an account will renew. Let's say you're selling software that charges based on seats and there is an annual subscription that you charge once per year. Maybe finance should be monitoring seat usage to get that deep understanding.

If you have an account with 10 seats and only 5 are actively used throughout the year, the odds of the customer renewing all 10 seats next year might not be high. If you're monitoring seat activity by client, you'll have a heads up early if a client's renewal is at risk and can proactively manage the situation through the customer success team.

Even though seat usage isn't a typical financial metric, focusing on an outcome like renewals might lead you to track that operational metric as a primary driver of your forecast. From there, partnering with the team responsible for renewals will help you both, ideally delivering increased renewals and more accurate forecasting.

This is the essential methodology behind outcome-based reporting. You ask what results the business is looking for, then measure and monitor the fundamental causes of them. That process puts you in the heart of what makes the business successful and lays the foundation for agile planning.



The Expense Side

Once you understand the revenue side of your business, start focusing on the costs associated with the business model.

This doesn't just mean knowing your gross margins and net margins. Rather, it means understanding what exactly has to happen for your business to sell the product. There are two sides of that equation:

- **Building the Product:** This includes everything from who is building the product to what systems and services make up the product, where you host the product (if it's a SaaS [Software as a Service] tool), who you need on staff to support the product, and more. You don't have to track it all perfectly, but you have to understand the different pieces.

- **Selling the Product:** What does your sales team look like? How long is your sales cycle? What's your sales rep ramp? What does your commission plan look like? How does your marketing spend breakdown across channels?

These are complicated questions to answer. If you aren't careful, it's easy to go down a rabbit hole of granularity when trying to get a strong grasp on your expenses. But it's important to remember that your goal on both the revenue and expense sides is to gather enough data to generate reasonably accurate plans and reports.

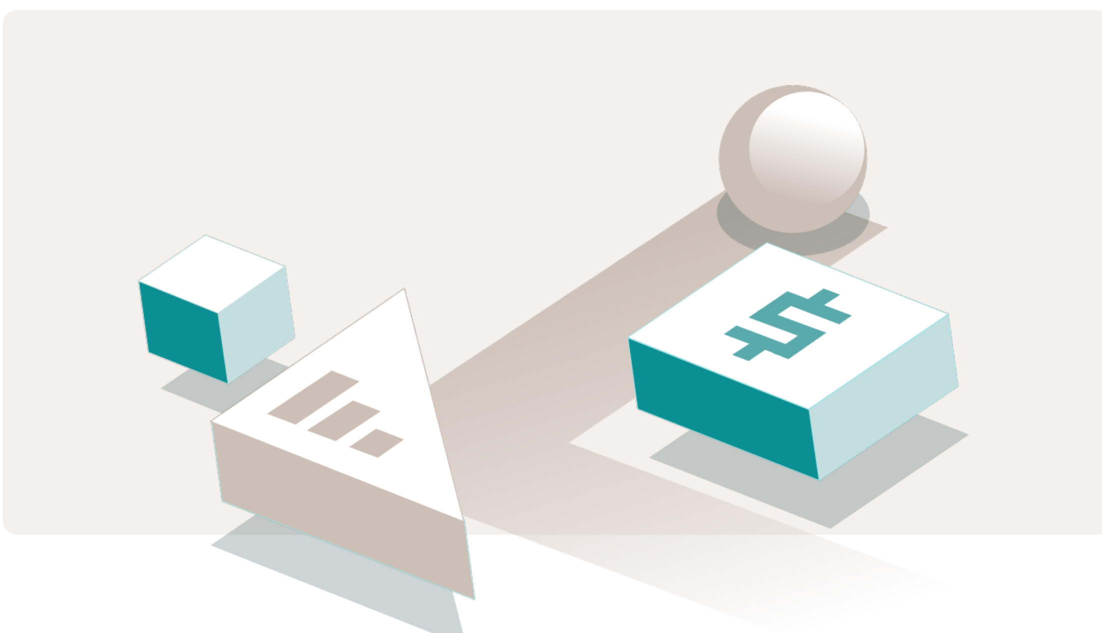
You aren't aiming for 100% accuracy when answering these questions and creating your forecasts. You just need general alignment on how each team contributes to outcomes that drive cash flow and profitability for the business.

Bring Revenue and Expenses Together to Answer Strategic Business Questions

When you put both sides of the financial impact equation together, finance becomes the hub between sales, marketing, and product. With that unique vantage point, you can translate all of sales, marketing, and product's activity into revenue and expense terms. And from there, an outcome-based finance team can ask (and help answer) questions like:

- Is sales "selling" something that isn't on the product roadmap, or too far down the roadmap, so as not to be deliverable after the customer signs the contract? In finance terms, this leads to uncollectible sales and churn.
- Is the marketing team's campaigns creating a lead funnel that drives sales efficiency? This affects finance's forecasts of new business.
- Is the product roadmap aligned with the marketing campaign timing? Is there a mechanism to delay a campaign if there is a delay in product launch? Answers to these questions affect revenue as well as both expense timing and amount.

At first glance, it might seem like it's not finance's "job" to ask questions like these. However, finance will be able to create more accurate forecasts by facilitating these outcome-based conversations. And that's what puts finance on the path to becoming a true strategic partner in the business.



4 Principles for Effective Outcome-Based Reporting

Agile planning and outcome-based reporting rely on your ability to narrow your focus to the metrics that impact the financial performance of your business. And that's what makes it so challenging to put in place—there's no one-size-fits-all approach and maintaining focus requires discipline.

However, there are a few general principles and best practices that can make CFOs more successful in transitioning to this value-add approach to planning and reporting.

1. Have a "Good Enough" Mindset

Total accuracy shouldn't be your main goal. That level of precision is necessary for legality and compliance on the accounting side. But for finance's outcome-based planning, it's more important to be directionally correct with your insights. Don't waste all your time tying everything out perfectly.

2. Make Event-Based Decisions

Event-based decision-making means adapting your financial plan according to the outputs of outcome-based reports. When you build a financial plan, you assume you're going to hit a certain amount of revenue. And based on that assumption, you've allocated budgets for each department.

But what happens when you only hit 50% of that revenue target? Based on that fact, you need to adjust your spending plans and build new assumptions. An event-based approach is what makes this reporting style more agile and flexible.

3. Find the Right Level of Granularity and Timeliness of Data

Finance doesn't need to track every business metric in real time. CFOs who effectively use outcome-based reports know when to get granular with their data and when higher-level, lagging indicators will get the job done. For example, you don't need real-time updates on travel and expense data. But when you're investing a significant amount of CapEx in a new piece of technology, you'll want to track whether or not the rollout is successful as closely as possible so you can proactively address issues that would hurt ROI.

4. Prioritize Collaborative Relationships

Cross-functional buy-in and accountability are two of the hardest parts of outcome-based reporting and real-time planning. Prioritizing collaborative relationships can make finance feel more like a business partner rather than the ominous figure that hammers departments with the numbers. When you build trust with each department, it will be easier to get the data you need to fuel effective reporting. And when you have that data, you'll be able to empower others across the business to succeed in their roles.

Conclusion: Bridge the Data Gap to Strategic Value

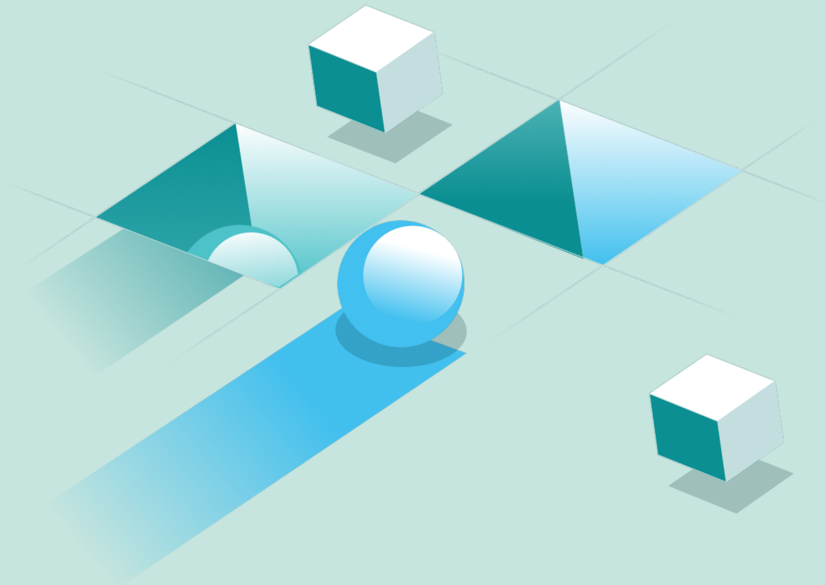
What CFO doesn't want to be the go-to strategic partner in their business? It's an empowering feeling when people seek out your expertise. If you embrace the outcome-based approach to reporting discussed here, you'll find yourself in this strategic seat at the table.

But before you can bring this kind legitimacy to the CFO role, you need to bridge the data gap between the old way of reporting and the new.

A detailed, bottom-up understanding of how your business makes money is the core pillar of outcome-based reporting. Without it, you won't be able to generate the strategic insights your business needs. However, the data you need to build that understanding usually doesn't exist in a recordable, easily-accessible system.

It's more important than ever for finance to champion an intentional business data architecture. If you can seamlessly centralize financial data from multiple systems across the organization, you'll have the visibility necessary to succeed with outcome-based reporting.

The CFO's path to a strategic seat at the table has never been clearer. Take the right steps today and find yourself in the room where it happens tomorrow.



About Eventus Advisory Group

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About Mosaic

Mosaic was founded in 2019 by three finance leaders who knew the office of the CFO needed an overhaul. Tasked with supporting business decisions for several companies in hyper-growth, they were frustrated by the slow speed, high complexity and inefficiencies existing tools in the market offered. With this challenge in mind, they set out to build a platform that would address the technical challenges modern day finance and business teams face.

Today Mosaic is deployed by some of the fastest growing companies, helping them align, collaborate and plan for the future.