

Case Study: CPM Is a Solution for Managing the Fast Growth at UniCredit Group

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UniCredit Group has implemented corporate performance management (CPM) to manage, with a single solution, the group data collection and consolidation of regulatory reporting, management and statutory reporting, budgeting and forecasting, and dashboard – to monitor some fundamental group key performance indicators (KPIs) on a weekly basis.

Key Findings

- UniCredit Group gains a competitive edge through its extensive European reach, robust business model and a corporate culture based on shared values.
- The company has established a single CPM solution to meet its group and divisional consolidation, planning, and reporting (management and regulatory) needs.
- From 2003, encompassing 10 projects in three phases over an eight-year period, UniCredit Group has incrementally designed and built a wide range of analytic applications following a well-documented, high-level, long-term performance management strategy.

Recommendations

- Executive sponsorship and long-term commitment is vital. CPM projects often require a significant initial investment and sizeable ongoing outlays over several years to achieve transformational results.
- Take an incremental approach to enabling a CPM suite, and build credibility and justify additional purchases with business cases before embarking on a larger vision. Start with the function that is most-critical to the enterprise.
- Ensure that the design and implementation staff have a good grasp of the complex business processes and problem to be addressed, not just technical skills. Use of a hybrid IT/business team is the best way to reduce this risk.

WHAT YOU NEED TO KNOW

Since 2003, UniCredit Group has been expanding its investment in CPM, which enables the company to manage its financial management processes at the group, regional and divisional levels with a single chart of accounts for the entire group. UniCredit Group's financial and regulatory consolidation process involves more than 3,000 users, approximately 500 consolidated companies (70% are fully consolidated) and more than 6,000 accounts.

CASE STUDY

Introduction

UniCredit Group is a major international financial institution with strong roots in 22 European countries and representative offices in 27 other markets, with approximately 10,000 branches and more than 168,000 employees as of 30 June 2009. In the Central and Eastern Europe (CEE) region, UniCredit Group operates the largest international banking network, with more than 4,000 branches and outlets. The company operates in the following countries: Austria, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Germany, Hungary, Italy, Latvia, Lithuania, Kazakhstan, Kyrgyzstan, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, and Ukraine.

The Challenge

One of the lessons learned was that, to understand business and the behavior of its clients, it is necessary to have (in a short time frame) the customer vision aligned as much as possible with the accounting results. In addition, UniCredit Group conducted an internal survey counting how many reports (managerial and risk) were produced for top management, and the result was that a lot of different information with different views and different performance KPIs was being generated. Thus, the company started with a group project involving the issuing of a common base of rules, to have the same product catalog, value types and rules with the same meaning for performance measurement KPIs, based on a common "formula" calculation consistently applied across regions, divisions and legal entities. UniCredit Group needed to increase the alignment between its strategic goals and its day-to-day activities around accounting and planning, and wanted to manage accounting and managerial needs across regions to reduce the reconciliation processes. Furthermore, the company needed to refresh its solutions to meet regulatory compliance, and it had significant expansion plans (that, over several years, involved inclusion of HypoVereinsbank (HVB), Bank Austria Creditanstalt and Capitalia Group, among others) that would require a new solution to manage its statutory consolidation processes and subconsolidation activities. Also, due to the growth of the group through acquisitions, there would be an increasingly complex and overlapping mix of software and applications.

As a result, UniCredit Group sought a unified solution that would provide:

- Monthly, quarterly and annual statutory and management consolidation at group, regional and divisional levels that could support UniCredit Group's fast growth, and could be implemented in a short time and shorten the closing and consolidation cycles
- A standardized application fostering better sharing and a common understanding of accounting and managerial information for the office of finance at group and divisional levels.
- Enable the accounts planning process to be fully restructured so that supervisory signals could be incorporated into the consolidation process
- Move from a partial Web solution to a full Web multiplatform solution
- A significant improvement in the technical and application platform, able to face the dynamic future of the company

(UniCredit was switching database platforms in the middle of this project, from SQL Server to Oracle)

- Creation of a UniCredit competence center to support technical and functional issues on performance management projects
- Reduction and mitigation operational risk during the entire workflow, in compliance with the Sarbanes-Oxley-like Italian Transparency Law (Legge 262)

Approach

The UniCredit Group approach was sponsored and driven by the CEO (see Figure 1), who recognized the need for a more sophisticated and flexible range of core financial- and corporate-level applications to support the bank's expansion plans, which have involved UniCredit Group for the past five years. The company had a strong project sponsorship and long-term vision, with a multiphased approach to CPM starting from statutory consolidation to planning and reporting, and spanning the project on multiple steps in multiple years. This resulted in a recognized standard group approach and solution for CPM, called CF ONE, the worldwide corporate program that standardizes all performance-related processes from the CFO and data warehouse through engine calculation to consolidation and reporting processes.

In the configuration of a CPM solution, CF ONE means:

- More than 3,000 users worldwide (1,700 users in accounting, 1,300 users in controlling).
- More than 500 companies, of which 354 are fully consolidated .
- Standardized chart of accounts for the whole group (6,000 financial accounts opened on 10 custom dimensions).
- Three main subconsolidation sites (HVB, Germany; Bank Austria, Austria; Pioneer, Italy), working via the Web on the same application applying different consolidation rules.
- Mandatory reporting for Italian Central Bank.
- Segment reporting (IAS 14). The objective of IAS 14 (revised in 1997) is to establish principles for reporting financial information by line of business and by geographical area.
- Management executive dashboard, including more than 500 reports.

When the first project started, UniCredit Group chose a best-of-breed CPM solution, mainly because of the strong link of compliancy with Bank of Italy regulatory reporting. After an evaluation of global and local CPM solutions that were able to meet the bank's complex consolidation requirements, UniCredit Group chose Tagetik (at the time, called Easy Finance, the previous version of Tagetik 3.0) for statutory consolidation during the second half of 2002. UniCredit Group concluded that it was a calculated risk to implement a new solution from an emerging CPM specialist versus a more established vendor. Tagetik guaranteed to reach the result in a very short time period (six months) and to lower the total cost of ownership (TCO) of the new application. UniCredit Group also decided that if the

project was successful, then it would have a flexible solution that would more easily meet its needs and offer a unique, custom solution, thus provide competitive differentiation.

In terms of a business case, UniCredit identified two key objectives:

- Reduce the cost to deliver the core financial close, reporting and planning functions by 20%.
- Reduce the financial close process from 35 to 30 days initially, and then, through further optimization, to 20 days, at least to produce the balance sheet and profit and loss (P&L) schemes. It should be noted that, in Italy, the close process is driven following the regulatory processes, rather than a strictly accounting process, because of the level of contract details and the Italian regulatory rules, under which it is mandatory to have financial statements (including notes) squared with the regulatory reporting.

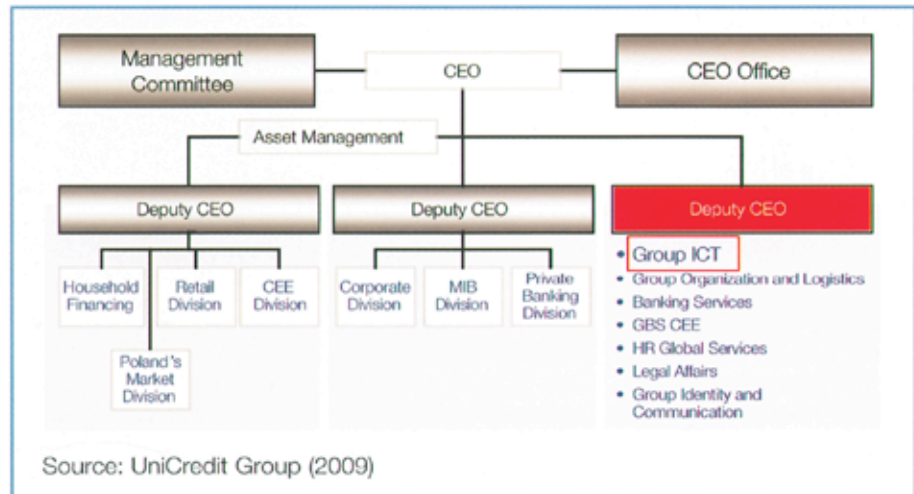
This project is the result of the migration of six applications to a single application, and is the result of multiple phases developed with Tagetik during the past six years. By September 2003, Tagetik delivered Phase 1 of the CPM strategy, the first consolidation application (via Easy Finance), running parallel with the previous system, which successfully reproduced the 2002 yearly and annual consolidated statutory accounts. UniCredit Group used this system to successfully close its third-quarter quarterly accounts, then its 2003 annual accounts.

Following this successful rollout, in June 2004, UniCredit Group asked Tagetik to expand the implementation to include a management consolidation and a management-oriented dashboard (at the time, still on Easy Finance). This project also saw the inception of an IT competency center (see Figure 1), composed of the Tagetik professional service staff and UniCredit Global Information Services (UGIS), the UniCredit Group company responsible for the management of its IT systems. This was later followed by many follow-up projects.

During a six-year period, the UniCredit Group IT team (using resources from Tagetik) delivered 10 projects in three phases, including:

- **Phase 1** – Departmental approach to CPM (different applications, fast implementation, user satisfaction, reduced costs).
 - Support for IFRS (IAS 14, segment reporting)
 - Extension of Tagetik solution to the newly acquired groups (HVB and Bank Austria), dismissing the local solution (2006 to 2007)
- **Phase 2** – Expansion of CPM, not only for consolidation processes.
 - IT budget collection (2006)
 - Web data collection of IT investments and costs
 - Data collection of unstructured information
 - Reporting

Figure 1. UniCredit Group's Organizational Structure and Position of the Competency Center



- UGIS cost allocation (ABC model, 2007)
 - IT costs charge back to client banks
 - Waterfall allocation based on ABC methodology
 - Full-cost P&L per production line and client
- Investment banking division budget process (2007)
 - More than 350 units
 - 400 users
 - Web-based data collection
 - Cost allocation per external costs
- P&L and quality information monitoring of strategic projects (via Tagetik 3.0, 2008)
 - KPI, including P&L, cash flow and statistical information
 - More than 300 projects monitored
 - Full life budget collection
 - Worldwide dashboard project with 300 users
- **Phase 3** – The enterprise approach. UniCredit Group was ready to kick off the CF ONE project, executing the long-term vision of unifying all CPM applications and the CFO processes (see Figure 2).
 - This latest stage of the financial consolidation solution implemented at UniCredit Group brings an end to the use of Easy Finance and the adoption of a single solution (Tagetik 3.0) for the end-to-end CPM needs. From February 2008 through September 2008, the company worked to rebuild the previous year's statutory reporting and to build the budgeting model for 2009.

Results

UniCredit Group took a visionary approach to CPM in support of its significant expansion plans. Fundamental to this was the establishment of a new solution to meet the group's financial consolidation and regulatory reporting needs. The company's strategy was to replace its fragmented legacy solutions with a stand-alone CPM suite that would initially support its needs to modernize and unify key financial processes, as well comply with the impending IFRS accounting standards. UniCredit Group chose a solution with a flexible, browser-based interface

and a strong Excel interface, to minimize rollout complexity, reduce training costs, and ensure that existing user skills could be leveraged. The company selected a solution that could be deployed within the 6 month window. However, they also planned for subsequent phases and therefore selected a CPM suite that could meet all appropriate organizational and IT requirements for financial planning and management reporting.

The new software that was introduced enabled the group to achieve a range of significant improvements and reduced the time needed for the entire consolidation process (meeting the company's second key objective, to reduce the reporting cycle from 35 days to 20 days). Tagetik succeeded at delivering statutory and financial reporting, and planning and management reporting via dashboards; UniCredit Group has already reduced the overall costs by nearly 10% after one year, and it would like to reach the goal of an overall 20% reduction in costs in three years. It has, however, met all the primary goals for its consolidation phases, including a full group consolidation of 500 legal entities and regulatory compliance to Italian generally accepted accounting principles (GAAP), International Financial Reporting Standards (IFRS) and, most recently in 2009, support for Extensible Business Reporting Language (XBRL) required by the Italian central bank. This solution has now become the standard group solution for statutory and management consolidated reporting for UniCredit Group worldwide.

Critical Success Factors

Gartner has identified the following factors that contributed to the success of the projects implemented at UniCredit Group:

- Strong project sponsorship and long-term vision.** The well-established plans for a multiphased approach to consolidation, planning and reporting, spanning multiple years and driven by the CEO and CFO, have been key to the successes at UniCredit Group. The drive for standardization using one consolidation solution with common business processes in every region and a common chart of accounts for the whole group reduced complexity in data collection and transfer, simplified reporting, made the entire solution easier to implement, and reduced TCO.
- Project execution through a specialist team.** The IT team, established in 2003 and reporting to the group deputy CEO, has provided support for all phases implemented at UniCredit Group. This team has provided operational and technical expertise, and continuity throughout the project phases. This group has aligned itself with many parts of the business and worked in tandem with external professional services staff from the software vendor.
- Knowing when to start (and stop).** UniCredit Group recognized that the only time that it could realistically implement and test a consolidation solution of this complexity was for a parallel run of the third-quarter reporting process. Trying to deliver for the second

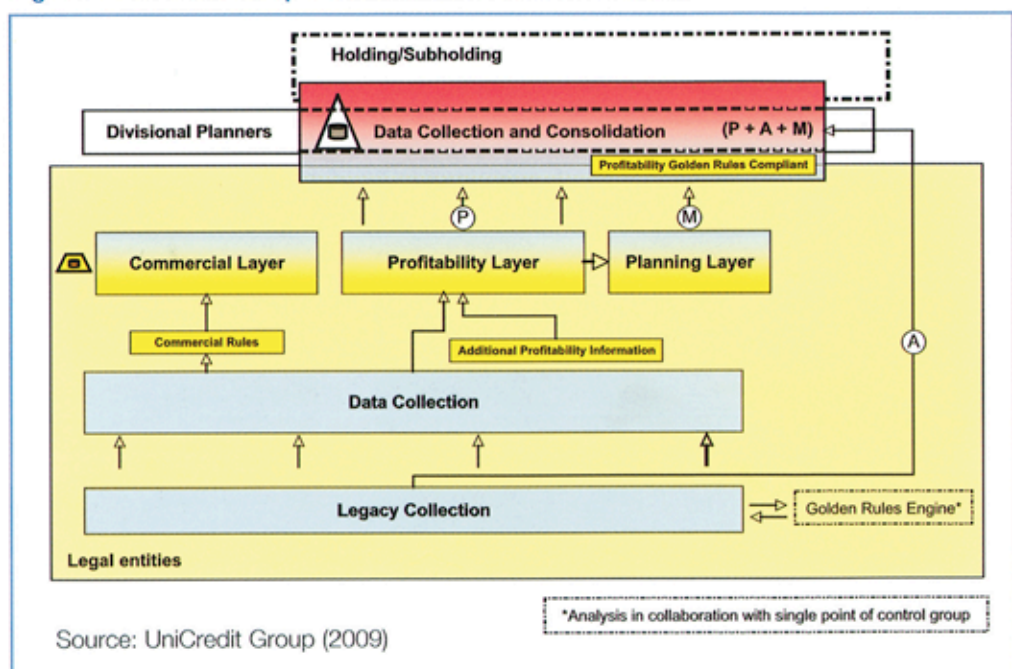
quarter would not have enabled a sufficiently long design and implementation time, and the first quarter and the fourth quarter are too busy to get time with the necessary financial staff.

- A modular approach with an accretive design.** UniCredit Group decided to use a best-of-breed packaged application that was separate from its ERP solution. This approach provided the company with a faster-to-deploy, easier-to-modify and easier-to-maintain solution that did not constantly need the involvement of the Tagetik consultants or in-house IT staff. Furthermore, the company stuck by its investment as it provided an easy upgrade from Easy Finance, because, although Tagetik has a different data model, it employs similar concepts.

Lessons Learned

- Plan a long-term CPM strategy** that can be segmented and delivered as a "quick win" in achievable phases that justify progress to the next steps. Prioritize the development according to the identified business benefits, and build incrementally into a suite of financial analytics applications.
- Establish a central team** to drive the CPM initiatives with tight integration to the business, comprehensive understanding of the business processes, strong project management and deep technical skills to construct an efficient solution. Ensure that the team has the backing of a senior sponsor that understands that CPM is a long-term commitment.
- Ensure that implementation teams have the right skills,** as the success of the consolidation solution for UniCredit Group was partially due to the combination of software vendor staff (that understood the Italian regulatory requirements and the technical details of the software) and the UniCredit Group's IT and CFO teams (that understood the business skills, such as financial consolidation processes, group structure and banking regulatory requirements). As a consequence, this combination of groupwide skills and the partnership approach with the vendor has improved the way software has been implemented.

Figure 2. UniCredit Group's Consolidation Process Evolution



Source: UniCredit Group (2009)