

**KEY TAKEAWAYS:**

- There is no consistency in how financial reports are delivered.
- The International Business Communication Standards (IBCS) consistently define shapes and colors of actuals and budgets, variances, different KPIs, etc.
- Using IBCS, reports and presentations will look the same or at least very similar in any company, regardless of the industry.

# Communication BREAKDOWN

Why is there no consistency in how we deliver financial reports?

*Andrej Lapajne*

# Financial Reporting

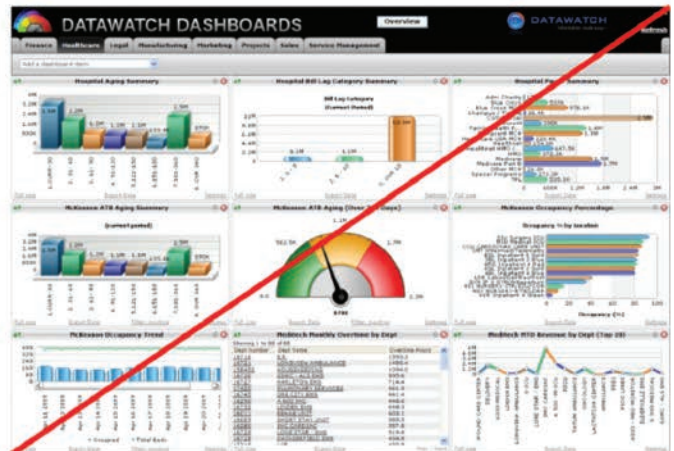
All too often, financial reports fall somewhere between messy spreadsheets and dashboards, full of poorly labelled and inappropriate charts, 3D effects and speedometers, that simply do not get the message across to the decision-makers.

While recent data visualization trends have improved the situation, the major problem of financial reporting is yet to be solved. Countless reports and presentations are created throughout organizations on a daily basis, all in different formats, lengths, shapes and colors, depending on the preferences of the person who prepares them. The end results are often managers not making their way through the data presented, time being wasted, and important decisions failing to be made.

Company: **Globat d.d.** Report: **Actual to Budget to Previous year comparison** 8.10.2010  
 KPI: **Net sales value** Month: **september**  
 Development of countries Year: **2010**

Regions	Actual 2009	Budget	Actual	% realization of budget	Absolute realization of budget	Deviation from previous year	Absolute deviation from previous year
	1	2	3	4=3/2	5=3-2	6=3/1	7=3-1
	EUR	EUR	EUR		EUR		EUR
<b>Western Europe total</b>	<b>382 214 360</b>	<b>567 876 476</b>	<b>442 018 299</b>	<b>-22,16%</b>	<b>-126 957 217</b>	<b>15,62%</b>	<b>66 703 899</b>
Austria	81 107 400	123 443 090	94 532 309	-24,6%	-28 910 771	10,5%	13 429 608
Greece	71 748 926	112 380 925	122 055 255	8,62%	9 669 330	70,13%	50 308 327
Italy	13 423 680	15 273 926	16 579 680	8,55%	1 305 743	23,51%	3 156 989
Germany	113 872 453	140 233 923	82 176 062	-41,19%	-57 766 061	-27,50%	-31 404 590
Netherlands	102 163 840	176 658 611	152 176 104	-28,46%	-50 290 508	23,70%	24 214 264
<b>Eastern Europe total</b>	<b>2 231 841 786</b>	<b>2 664 986 377</b>	<b>1 653 737 642</b>	<b>-4,06%</b>	<b>-1 257 834</b>	<b>18,90%</b>	<b>421 896 748</b>
Bulgary	489 520 964	315 325 658	392 826 106	24,37%	76 968 311	-21,34%	108 595 769
Russia	123 108 392	384 248 328	273 563 644	-10,09%	-30 703 190	122,01%	150 374 253
<b>North America total</b>	<b>21 200 181</b>	<b>18 985 421</b>	<b>53 383 928</b>	<b>-11,86%</b>	<b>-7 181 484</b>	<b>161,81%</b>	<b>32 183 766</b>
Canada	15 143 906	10 633 844	11 015 344	3,59%	381 500	-27,20%	-4 128 582
USA	6 056 275	49 931 577	42 368 582	-15,15%	-7 562 994	590,59%	36 312 347
<b>South America total</b>	<b>635 349 119</b>	<b>560 956 906</b>	<b>588 881 928</b>	<b>4,62%</b>	<b>26 926 122</b>	<b>-7,72%</b>	<b>-49 114 891</b>
Argentina	29 85 569	134 636 336	101 336 195	-24,73%	-33 297 141	-30,94%	-45 407 394
Brazil	599 249 930	426 120 470	486 542 733	13,88%	59 222 263	-4,28%	-3 202 192
<b>Asia total</b>	<b>892 046 129</b>	<b>876 280 516</b>	<b>664 049 642</b>	<b>-8,81%</b>	<b>-12 210 873</b>	<b>12,16%</b>	<b>72 003 514</b>
India	21 784 619	19 956 167	29 080 654	45,74%	9 129 487	33,53%	7 504 035
Japan	278 352 800	482 347 469	463 786 396	-3,05%	-18 579 074	66,61%	185 415 535
China	291 908 649	173 953 879	171 182 594	-1,59%	-2 791 286	-41,35%	-120 718 056
<b>Export total</b>	<b>3 863 398 984</b>	<b>4 520 753 984</b>	<b>4 400 071 299</b>	<b>-2,87%</b>	<b>-126 682 295</b>	<b>13,89%</b>	<b>536 672 335</b>

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There may be a solution. The International Business Communication Standards (IBCS) consistently define shapes and colors of actuals and budgets, variances, different KPIs, etc. Often referred to as the “traffic signs for management”, the IBCS are a set of best practices that went viral in Europe and have solved business communication problems in numerous companies such as SAP, Bayer, Lufthansa, Philips, Coca-Cola bottlers, Swiss Post, etc.

## IBCS-compliant financial report (Income statement)

Compared to 2012, the higher expenses of mEUR 187 could mainly be compensated by higher licensed sales (mEUR +183)

Software and Service Group

Profit and loss statement in EUR

2012, 2013 and ΔPY, ΔPY%

	2012	2013	ΔPY	ΔPY%
Licences	713	896	+183	+26
Consulting	72	90	+18	+25
Maintenance	22	10	-12	-55
Other revenue	6	65	+59	+983
<b>Sales revenue</b>	<b>813</b> ①	<b>1.061</b>	<b>+248</b>	<b>+31</b>
Other op. income	45	17	-28	-62
Purchases	344	379	+35	+10
Material expenses	11	54	+43	+391
Personnel expenses	76	127	+51	+67
Amortization	56	40	-16	-29
Other op. expenses	78	152	+74	+95
Expenses	565	752	+187	+33
<b>Operating profit</b>	<b>293</b>	<b>326</b>	<b>+33</b>	<b>+11</b>
Investment income	43	53	+10	+23
Financial income, net	73	66	-7	-10
<b>Profit before tax</b>	<b>409</b>	<b>445</b>	<b>+36</b>	<b>+9</b>
Income tax	132	111	-21	-16
<b>Profit after tax</b>	<b>277</b>	<b>334</b>	<b>+57</b>	<b>+21</b>
Profit to other interests	89	55	-34	-38
<b>Group profit</b>	<b>188</b>	<b>279</b> ②	<b>+91</b>	<b>+48</b>

① Sales 2012: Elitr, sed diam nonumy ads      ② Sales 2012: Elitr, sed diam nonumy ads      ③ Sales 2012: Elitr, sed diam nonumy ads

## Why do we need standards for business communication?

Having standards in our daily life is highly practical. They simplify our decisions, enable us to work more efficiently and in most cases, make our lives better.

Imagine if every city, town and village used their own set of traffic signs. Perhaps in mayor's favorite color or to somebody else's personal appeal. You'd have to stop at each road crossing, take out the "Smallville's Manual of Traffic Signs, Edition Fall 2015" and study what this emerald sign in front of you means.

It sounds comical, but this is exactly what we do in business communication. Today we use blue column charts for sales, tomorrow it's a multicolored pie-chart. If the accounting department prepares a financial report, chances are it is going to be a rather large spreadsheet with all figures displayed in two decimals. If it comes from the marketing department, then it most likely contains pie charts, designed strictly in corporate colors, and a big logotype at the top. If you happen to use Excel, it looks one way and if you use another software tool, it's something completely different.

## International Business Communication Standards

In 2004 Dr. Rolf Hichert, the renowned German professor, took on a challenge to standardize the way analysts and controllers present data in their reports, dashboards and presentations. His extremely successful work culminated in 2013 with the public release of the IBCS, the world's first practical proposal for the standardized design of business communication.

So how does IBCS work? Let us start with a simple example:

This is a typical grouped or "clustered" column chart, representing the actual and budget sales figures. The goal of this visualization is to compare actual sales vs. budget.

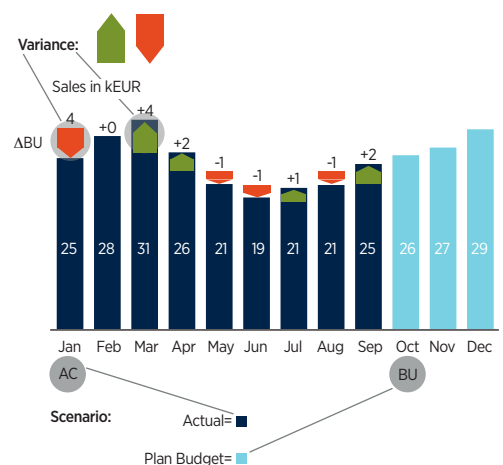
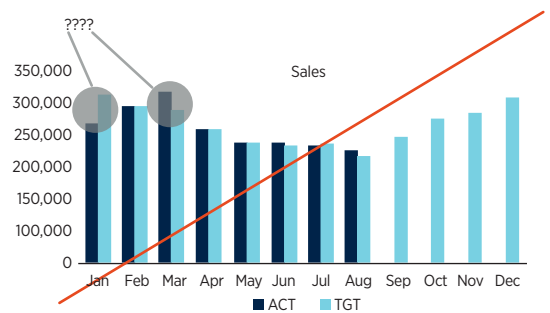
Is it efficient? First, we need to figure out that the blue columns represent the actuals and red columns the budget. Why blue? Why red? This color assignment is completely arbitrary, probably just an accidental default of the software tool. Second, it is quite hard to estimate the variances to budget. Are we above the budget or below the budget in a particular month? For how much?

Now let's observe the same dataset designed according to the IBCS. First, the actuals are depicted as dark grey full columns, while the budget is an outline. We call this scenario coding: the budget is an empty frame that has to be filled up with the actuals. It's very intuitive and it saves the colors so we can apply them to more important data categories. Second, the variances are explicitly calculated and visualized. Positive variance is green, negative variance is red. The user's attention is guided to the variances, which are in this case the key to understanding the sales performance.

The values are explicitly labeled at the most appropriate position on the chart. All texts are standardized, exact, short and displayed horizontally. The name of the KPI always contains the unit.

The IBCS include extensive rules and recommendations for the design of business communication that help:

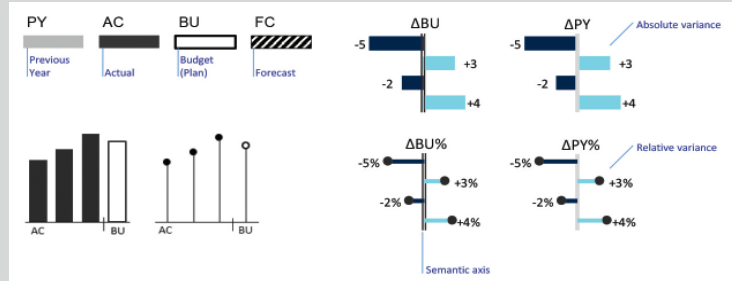
1. Organize and structure your content by using an appropriate storyline
2. Present your content by using an appropriate visual design and
3. Standardize the content by using a consistent, uniform notation.



# Financial Reporting

## A part of uniform notation in IBCS

After you apply the IBCS rules to your standard variance report, it will look something like the illustration below.



### Even with +10, 2% PY growth, we are -121M€ below budget due to Hungary and W. Europe

Sales in mio € Jan..Sep 2008 10. oct. 2008

Region	PY	ΔPY	ΔPY%	AC	ΔBU	ΔBU%	BU
Austria	81,1	+13	+16,6	94,5	-29	-23,4	123,4
Greece	71,7	+50	+70,1	122,1	+10	+8,6	112,4
Italy	13,4	+3	+23,5	16,6	+1	+8,5	15,3
Germany	113,9	-31	-27,6	82,5	-58	-41,2	140,2
Netherlands	102,2	+24	+23,7	126,4	-50	-28,5	176,7
<b>W. Europe</b>	<b>382,3</b>	<b>+60</b>	<b>+15,6</b>	<b>442,0</b>	<b>-126</b>	<b>-22,2</b>	<b>568,0</b>
Bugaria	499,5	-107	-21,3	392,9	+77	+24,4	315,9
Czech Republic	929,0	+140	+15,1	1.069,0	+45	+4,4	1.023,9
Hungary	204,6	+77	+37,6	281,4	-146	-34,2	427,8
Poland	475,5	+161	+33,9	636,8	+54	+9,2	583,1
Russia	234,0	+40	+16,9	273,6	-31	-10,1	304,3
<b>E. Europe</b>	<b>2.342,7</b>	<b>+311</b>	<b>+13,3</b>	<b>2.653,7</b>	<b>-1</b>	<b>-0,0</b>	<b>2.655,0</b>
Canada	15,1	-4	-27,3	11,0	+0	+3,6	10,6
USA	26,0	+16	+63,0	42,4	-8	-15,1	49,9
<b>N. America</b>	<b>41,1</b>	<b>+12</b>	<b>+29,7</b>	<b>53,4</b>	<b>-7</b>	<b>-11,9</b>	<b>60,6</b>
Argentina	146,7	-45	-30,9	101,3	-33	-24,7	134,6
Brasil	489,2	-4	-0,8	485,5	+59	+13,9	426,3
<b>S. America</b>	<b>636,0</b>	<b>-49</b>	<b>-7,7</b>	<b>586,9</b>	<b>+26</b>	<b>+4,6</b>	<b>561,0</b>
India	21,8	+7	+33,5	29,1	+9	+45,7	20,0
Japan	278,4	+185	+66,6	463,8	-19	-3,9	482,3
China	291,9	-121	-41,4	171,2	-3	-1,6	174,0
<b>Asia</b>	<b>592,0</b>	<b>+72</b>	<b>+12,2</b>	<b>664,0</b>	<b>-12</b>	<b>-1,8</b>	<b>676,3</b>
<b>World</b>	<b>3.994,2</b>	<b>+406</b>	<b>+10,2</b>	<b>4.400,1</b>	<b>-121</b>	<b>-2,7</b>	<b>4.520,8</b>

- Write your first comment here. Do not repeat the number but explain **why**
- Write your second comment here. Do not repeat the number but explain **why**

- Write your third comment here. Do not repeat the number but explain **why**
- Write your fourth comment here. Do not repeat the number but explain **why**

Responsible John Doe, Reporting Department, Int. 320, john.doe@global.com

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As you may have noticed, this report has several distinctive features:

1. The key message (headline) at the top,
2. Title elements below the key message
3. Clear structure of columns (first PY for previous year values, then AC for actual and at the end BU for budget; *always* in this order),
4. Scenario markers in column headers (grey for PY, black for AC and outline for BU)
5. Strictly no decorative elements (no logotypes, pictures, corporate image visuals, no vertical lines between columns, no colorful backgrounds, etc.), only a few horizontal lines
6. Variances are visualized with red/green “plus-minus” charts and embedded into the table
7. Absolute variances (ΔPY, ΔBU) are visualized as a bar chart, while relative variances (ΔPY%, ΔBU%) are visualized as “pin” charts (we prefer to call them “lollipop” charts)
8. Semantic axis in charts: grey axis for variance to PY (grey = previous year), double line for variance to budget (outline = budget)
9. Numbered explanatory comments that are integrated into the report.



## How to roll-out IBCS in your company

IBCS proposes two quite bold ideas:

1. The reports and presentations should look the same or at least very similar in any company, regardless of the industry. Whether it's a multinational pharmaceutical corporation, a bank or a mid-size consulting company.
2. The reports and presentations should look the same or at least very similar regardless of the software tools the users work with.

It sounds controversial, but it has been proven in practice. Are you ready to try it? Here are a few recommendations for rolling out the IBCS standards in your company:

1. Build a quick prototype as a proof-of-concept and use it to get the top management support.
2. Use the officially certified software tools, approved by the IBCS Association. The full list of tools is available at <http://www.hichert.com/certifications/307>
3. Prepare your Corporate Reporting Standards based on IBCS. Take IBCS and modify it to meet your specific requirements. Then enforce it inside your organization and possibly also to your third-party information suppliers.
4. Roll IBCS out from top to bottom. Make large changes, but in small, controllable steps. Always offer the end users your redesign just as an alternative. Let them choose. If your redesign is good, they'll embrace it.

*Andrej Lapajne is the CEO at Zebra BI and a founding member of the IBCS Association. Along with Ozlem Karapanli, financial service manager for Coca-Cola İçecek, Lapajne discussed IBCS at the 2015 AFP Annual Conference in Denver.*



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