MODERN FINANCE IN THE DIGITAL AGE

REPORT AND COMPLY
BEST PRACTICES

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Introduction

Gartner calls them the "Nexus of Forces." **IDC** says they constitute the "3rd Platform" for innovation and growth. No matter how you define it, cloud, social, mobile, and big data are changing the competitive dynamics of the global economy and creating significant value for companies that know how to create business models leveraging these technologies.

According to new research by **Deloitte** and **OpenMatters**, the shift to digitally enabled business models is also influencing shareholder valuation strategies.[1] Investors are paying more for companies with business models that embrace and emphasize "intangible assets"—customer, human, and intellectual property—and leverage the wisdom of crowds to co-create products and services. The historic method of value creation matters less in today's digital age: tangible assets, including plants, property, equipment, and financial assets, now constitute just 20 percent of total corporate value on the S&P 500, compared to 80 percent in 1975.[2] CFOs who continue to allocate their company's capital to tangible assets using previous generations of technology are putting their company's management and shareholders at serious risk, generating lower levels of performance and enterprise value than digitally and big-data-savvy CFOs who are spending their organizations' resources on building and mining intangible assets powered by today's technologies.

> "By 2018, one third of the top 20 market-share leaders will be significantly disrupted by new competitors that use the 3rd platform to create new services and business models."
>
> **—IDC Predictions 2014**

[1] Libert, Barry; Ribaudo, William J.; and Fenley, Megan Beck. "CFOS; Embrace Digital or Put Your Company's Future at Risk," CFO Journal, Wall Street Journal Online, July 28, 2014.
[2] Ibid.

Impact of Digital Technologies
Transforming How Industries Create Value

US$1+ trillion in mobile e-commerce revenue by 2017

US$17+ billion in big-data revenue by 2015

US$200+ billion in cloud services revenue by 2015

US$290+ billion in Machine-to-Machine revenue by 2017

Health Sciences
Personalized Medicine

Hospitality
"Above Property" Cloud Solutions

Communications
Machine-to-Machine Communications

Utilities
Smart Grids and Flexible Power Consumption

Asset Intensive
Flexible Capital Planning & Development

Retail
Commerce Anywhere on Any Device

Financial Services
Online Banking & Mobile Payments

> "We believe that the shift to digitally enabled business models is very much a CFO issue and opportunity. First, CFOs are the stewards of corporate value; they have the finance background and understanding of market valuation of business models that is needed to comprehend the long-term implications of different business models. Second, they can act as catalysts of business model change due to their understanding of finance and growing oversight of IT strategy and investments. And most importantly, digital transformation provides CFOs with a significant opportunity to be leaders and strategists by rebalancing their investment portfolio into intangible assets that can help create more sustainable, valuable business models."
>
> **—David Pleasance, senior partner, Deloitte Consulting LLP**

Not surprisingly, change on this scale has produced new tensions as the C-suite attempts to prioritize competing initiatives to support a more customer-centric approach to business, and meet the growing demands of social-media marketing and an apparently inexhaustible clamor for data. It is becoming increasingly apparent that if organizations are to successfully navigate the challenges of the Digital Age, then the roles of the CEO, CFO, CMO, and CIO must coalesce around a new model of collaboration with the acquisition, maintenance, and consumption of data at its core.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration. They recognize the need for new rules to measure, manage, invest, and report on changing sources of corporate wealth, and the demand for new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to potentially assume the CEO role when the time is right.

This research identifies the new best practices of modern finance organizations in five key processes critical to any finance function:

- **Report and Comply**
- **Measure and Respond**
- **Plan and Predict**
- **Procure to Pay**
- **Project Financial Management**

The research also examines how modern CFOs are adopting new best practices in **Change Management** and new ways to measure **Return on Investment** (ROI) in digital technologies to modernize the finance function.

"The CFO is the glue that brings everything and everyone together. In that role, you are the collaborator and the alignment person with the other C-suite executives to make sure that there are no gaps in strategy, in decision-making, in execution. No one else can really touch all the parts of the enterprise the way that the CFO can."

—Keith Kravcik, EVP and CFO, Ovation Brands

Report and Comply Best Practices

The Report and Comply process includes:

+ General ledger accounting
+ The financial close
+ Management reporting
+ Statutory consolidations
+ External reporting
+ Tax and regulatory compliance

What's changed in the Digital Age?

The classic report and comply function included a sequential series of highly fragmented manual processes that resulted in errors, staff overtime, and significant management anxiety. Today, modern ERP and planning and budgeting cloud services imbued with the latest social and mobile functionality can streamline the close process and speed reporting. In today's competitive economy, it is critical that companies embrace task automation and collaboration through a well-orchestrated process that streamlines the entire record-to-report cycle.

The following best practices can help you modernize the Report and Comply process:

1. Adopt a modern, technology-enabled close process
2. Speed "right-time" decision-making using standardized processes and a strong data governance model
3. Leverage the cloud strategically to modernize finance

#1 BEST PRACTICE

Adopt a modern, technology-enabled close process

Although the close process may not rank at the top of C-suite priorities, smart finance executives know that a well-designed, technology-enabled close has become a critical best practice by which modern CFOs and their teams are measured.

> "Closing the books, reporting more efficiently … those are just table stakes for a modern CFO. You can't ask for a more strategic role in the organization if you can't deliver on the basics."
>
> **—Jeff Henley, vice-chairman of the board and former CFO, Oracle Corporation**

> "In what I would call the classic close, nothing significant happens until the end of the month. I think where the move has been over the last few years has been towards a more modern close, where you cut off your subledgers and transactional systems early, then look at material transactions that may have happened between the date of that early close and the true month end. When you close this way, you can then redeploy finance staff to work on the financial planning and analysis component of the close."
>
> **—Les Stone, managing director, Accenture Strategy, Finance & Enterprise Performance**

To become world-class, finance organizations need to evolve from a traditional close process in which the steps are sequential, to a modern, more strategic close that allows CFOs and their finance teams to perform key functions in parallel during the close process.

A company with a more nimble close process, for example, can take care of a significant number of account reconciliations outside the critical path of the close, rather than right in the middle of it, which is a traditional—and problematic—way to handle reconciliations.

If you can achieve such efficiencies and modernize your close process, you can redeploy resources to planning and analytics, providing much greater value to the business. Modernizing and streamlining the close process also strengthens internal controls, reduces errors, and gives CFOs confidence in the numbers.

Integrating Acquisitions at Oracle

Legally combining companies is a very complicated process, especially for acquisitions governed by unique laws and regulations. The acquirer must roll in the acquired company's legacy systems—including vital operations such as accounts receivable and general ledger—without disrupting day-to-day operations.

MASTERING M&A

1. Simplify your operations as much as possible before embarking on M&A
2. Centralize and automate governance of global chart of accounts and related hierarchies using modern data relationship management tools
3. Deploy modern, cloud-based systems with the latest social, mobile, and analytical features embedded
4. Implement shared services or centers of excellence that follow these key processes globally
5. Use big data and analytics to implement SLA integration metrics and measure M&A success

"One of the big challenges we faced is just the volume of acquisitions we've done since 2005," notes Corey West, senior vice president, corporate controller and chief accounting officer at **Oracle Corporation**. "And those acquisitions themselves create significant challenges. Having a financial footprint and a business-process footprint that is run on a single instance and run on a single set of technology makes that process much, much easier."

Oracle's finance team is using Oracle Data Relationship Management (DRM) to centralize and automate governance of its global chart of accounts and related hierarchies, which helps the company lower costs and greatly reduces risk. This is especially important while acquisitions are transitioning from their original systems to maintain alignment and ensure consistency of reporting across Oracle's business applications landscape.

#2 BEST PRACTICE

Speed "right-time" decision-making using standardized processes and a strong data governance model

The speed with which companies can access and act upon information has become a critical differentiator in today's increasingly data-driven economy. Given the need for speed, real-time decision-making has been held up as an industry best practice, but what is the advantage of a decision made in real time if it turns out to be the wrong decision? What good is real-time information if it isn't in the hands of the right decision-makers?

According to **Accenture Strategy** managing director David Axson, what sets apart today's market leaders is "right-time decision-making—providing the right information to the right decision-makers at the right time. It isn't just about having any data at your fingertips, but having real-time data at the right time, whether you are a retailer evaluating credit risk at the point of sale, a bank evaluating credit risk during the loan-origination process, or a B2B exchange trying to determine the profitability of a relationship with a specific customer during an online transaction.

Based in Geneva, Switzerland, **SITA** is a world-leading specialist in air transport communications and IT solutions, with over 450 airlines worldwide being customers and shareholders in the company. SITA simplified a complex and fragmented legacy IT landscape by consolidating multiple systems and implementing a global single instance of financial, BI and EPM applications.

The company standardized on one data model for budgeting, forecasting, and planning with a single data store, to deliver a unified view of all financial and project data to improve control and decision support. "SITA is in a very particular situation because many of the products we provide are mission-critical to our customers, and our customers are our shareholders," explains Colm O'Higgins, CFO, SITA. "So we do not look at product performance exclusively from a financial perspective. However our portfolio needs to perform overall."

Before consolidating on a single ERP and EPM instance, a huge manual effort by SITA's finance team was required in order to measure the actual profitability compared with the business case. "Now, we've put a discipline around that and have access to real-time data that allows us to review those business cases quickly and drive performance accordingly."

> "Data governance should definitely be on every CFO's agenda. In my experience, poor data governance is one of the key reasons why ERP implementations fail. I made strong data governance one of the foundations of SITA's Strategic Finance Systems (SFS) initiative, simplifying our chart of accounts down from 8,500 to 500, streamlining processes, and cleaning up the master data to ensure that our transformation project would be successful."
>
> —Colm O'Higgins, CFO, SITA

#3 BEST PRACTICE

Leverage the cloud strategically to modernize finance

According to **Gartner's** 2014 CFO Technology Imperatives survey, 81 percent of respondents forecast a move to the cloud for more than 50 percent of their future transactions, including a number of financial applications.[8]

Modern CFOs are increasingly turning to cloud-based financial management systems to replace legacy ERP systems, consolidate far-flung subsidiaries or business units, and deploy new functionality to complement on-premises systems. Using the cloud enables CFOs to redeploy the capital they save on IT maintenance and hardware to fund new business opportunities, and reassign IT staff to work on technology-led innovations.

Nufarm S.A., the Latin American subsidiary of its Australian-based parent, was an early cloud adopter in 2005 and now uses a hybrid of both public-and private-cloud solutions to help drive its expansion in Argentina and across Latin America. "When we started Nufarm in Argentina, we were just 10 people and no IT department," recalls Fabio De Felippis, financial controller at Nufarm S.A. "The main advantage of the cloud is that we can grow in revenues, but not in headcount."

"We turned to a managed ERP cloud service to support our growth across Latin America. Today, we are a company with 55 employees and US$100 million in revenues, and we are on track to double that over the next five years."

—Fabio De Felippis, financial controller, Nufarm S.A.

Using a cloud service has allowed Nufarm to keep IT costs extremely low, even as the company expands aggressively into new markets. "Currently, our IT costs are equal to 1 percent of our revenues, which The Hackett Group defines as world-class," notes De Felippis.[9] "So not only are we able to reinvest our profits into growing our business, but with the cloud we don't have to worry about finding skilled IT staff to support that growth. We can offload that cost and complexity to our service provider."

Another important requirement of cloud financial management software is the ability to support process standardization and efficiency through workflow, social collaboration, analytics, and ease-of-use to help manage increasing volumes without adding additional non-strategic and costly staff. The key is to understand the differences between first-generation, point solution software-as-a-service (SaaS) providers and established enterprise software vendors that provide unified cloud solutions. "Companies focus on financials but may lose sight of what the provider can offer them," notes Drew Scaggs, principal, **Deloitte Consulting LLP.**

[8] "The CFO's Technology Imperatives," FERF Issue Alert, 2014.
[9] "Finance Service Delivery: Increasing Agility, Enhancing Value," The Hackett Group, 2012 Book of Numbers.

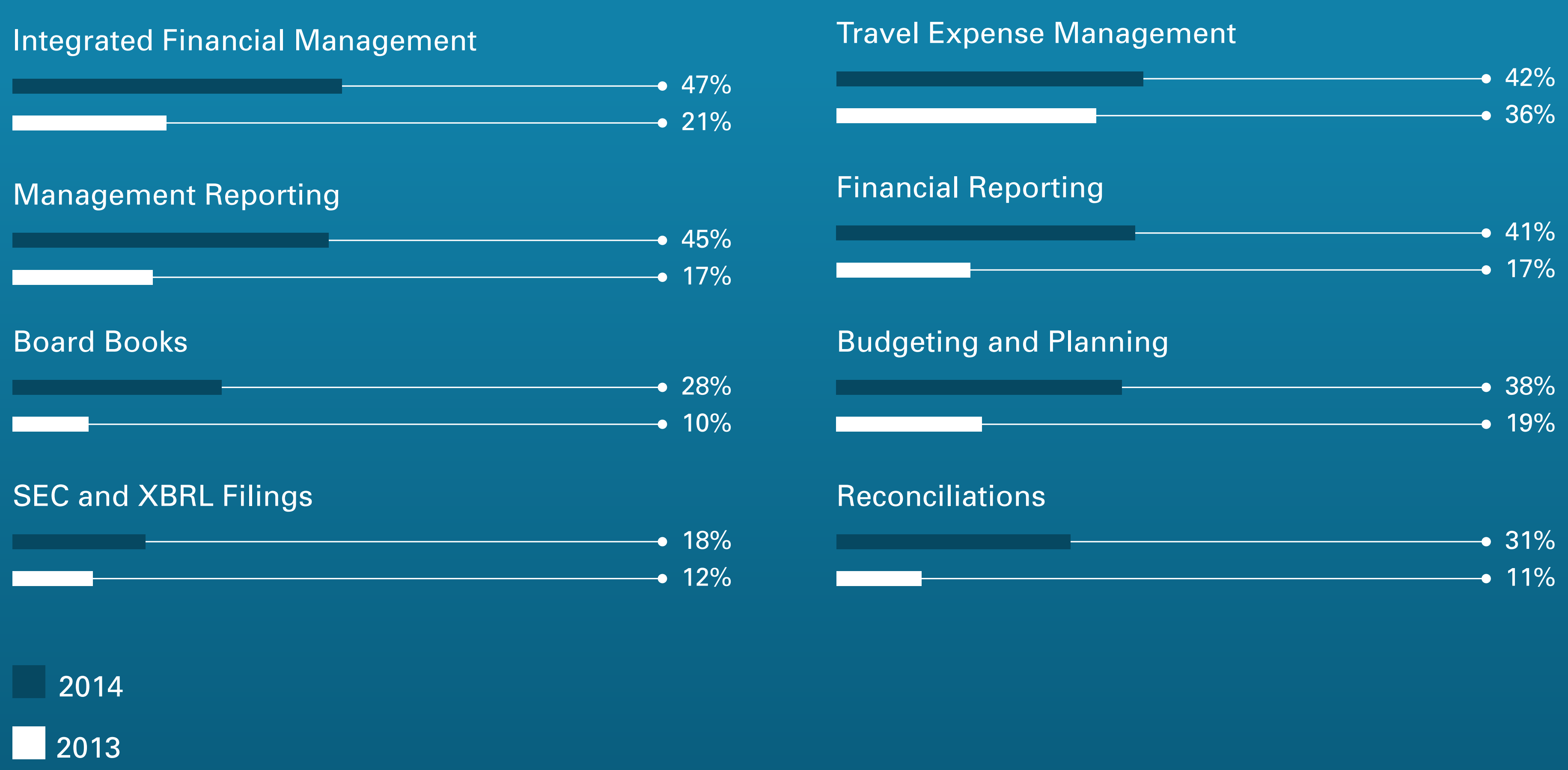
> "Today we have a platform to grow, to multiply the business five times over. Before, we didn't have the capabilities to administer this type of rapid growth. So we looked to an ERP cloud solution to be a partner in our growth."
>
> **—Fabio De Felippis, financial controller, Nufarm S.A.**

"You have to have end-to-end capabilities that are integrated. Think about procure-to-pay and how it integrates with the accounts payable module in your core accounting system," concludes Scaggs.

Integration was a key driver in the decision for Los Angeles-based **Boingo Wireless** when it looked at a variety of cloud-based solutions for ERP and planning and budgeting. The global wireless access provider is realizing double-digit growth and wanted to modernize its finance operations with an integrated system to support that global expansion. "As we grow, we are looking to the future and how we can address our needs in areas such as intercompany transactions, business intelligence, and global compliance," notes Boingo Wireless CFO Peter Hovenier. "We've relied so heavily on Excel that this is going to be an amazing transformation for us as a company. Both the business and finance teams are excited about the tight integration between the new ERP cloud system and the cloud-based Planning and Budgeting module."

Embedded social collaboration is another innovation that can be accessed through modern, cloud-based ERP systems. These collaboration tools use conversational capabilities, similar to social media, embedded directly into the actual transactions to provide users with context and allow them to execute faster. "We're seeing modern finance organizations increasingly leverage collaboration tools to get things done faster," says Deloitte's Scaggs. "It could involve mitigating something that doesn't balance or verifying a number. Also, having the ability to attach work products so that people don't have to dig through e-mails to make a decision or approve something is very important."

CFOs Embrace Moving Financial Applications to the Cloud



Source: "The CFO's Technology Imperatives for 2014," FERF Issue Alert, 2014.

Conclusion: Mastering Digital Transformation

To succeed in the Digital Age, CFOs and the organizations they lead must recognize the value of a holistic approach to digital transformation that can drive both operational savings and the flexibility needed to change business models or shift in and out of markets quickly.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration.

Today's modern CFOs also recognize the need for new rules to measure, manage, invest, and report on changing sources of corporate wealth, and thus are embracing new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation not just in finance but across the enterprise are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to ultimately assume a greater leadership role in their organizations.

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