

Financial Performance:
Rise of the digital CFO

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Rise of the digital CFO

By Troy B. Barton

These are challenging but exciting times for CFOs. The same forces that have created the new economy have given them the opportunity to assume new positions of leadership and the tools for improving the overall performance of their companies.

At first glance, the chief financial officer might appear to be in a less than enviable position these days. Working in the tumultuous world of e-commerce, where the rules for business seem to change daily, CFOs must respond not only to external pressures that are redefining operating conditions and the finance function itself, but also to internal pressures to deliver more relevant and value-added services at higher speed.

And, of course, they also have their day jobs: As their companies undergo often radical change, finance executives must continue to maintain fiscal prudence, discipline and excellence.

In fact, however, this may well be the best of times to be a CFO. The same forces that have created the new economy also have created an unprecedented opportunity for finance executives to assume new positions of leadership in which they can play crucial roles in delivering value and improving the overall performance of the company.

Pursuit of excellence

CFOs once focused their efforts on positioning their companies for long-term growth, basing their strategies on historical performance and strict performance measures. Today they must take on the additional responsibility of providing their companies with innovative models for managing fluctuating market shares, new revenue/cost streams and unanticipated performance management issues.

Yet despite all the upheaval, the CFO's job has not changed in one critical respect. It is still defined by three core finance activities: governance, business-decision support and transaction processing. In their pursuit of excellence in these activities, today's CFOs will be helped by new,

Web-enabled capabilities that provide an effective approach for managing the challenges and capitalizing on the opportunities of e-commerce.

Governance

For the CFO, governance is about fiscal leadership: making decisions involving investment appraisal and performance management for economic return.

But how does the CFO remain fiscally prudent in the e-environment, where old performance measures no longer do the job? No one wants to pay the price for a lost opportunity, which is a real danger if strategies are not formed quickly and decisively in the fast-paced world of e-commerce.

According to a recent survey,* only 17 percent of CFOs and senior finance executives feel that established financial processes can be "very effectively" used to account for new revenue/cost streams. That is why a new understanding of governance is critical not only to maximizing value in business but also to developing and evaluating e-commerce initiatives.

CFOs are rethinking the finance function—how it works, what the drivers and measures are, and how skills can be best utilized.

Some of the most significant changes are occurring in the treasury function, particularly in *cash management*. For example, by using the Internet, the finance organization can automatically route available cash to profitable investments and increase the accuracy and timeliness of cash forecasting. Web-based solutions also enable the global management of the treasury process, enhance enterprise control and audit capabilities, and improve communications with finance institutions.

A Web-enabled treasury function brings a number of benefits. It allows increased control over cash positions and creates a portal for managing portfolios, risk and the trading of financial products. It also provides easier access to banking information as well as the ability to link cash-flow forecasting to the operating systems and the budgeting and planning processes.

Another area of responsibility that is undergoing significant change is *investment appraisal*. In a more traditional business setting, decisions about investment funding are made on an annual basis. But in the e-commerce realm, they often are made monthly or even more frequently.

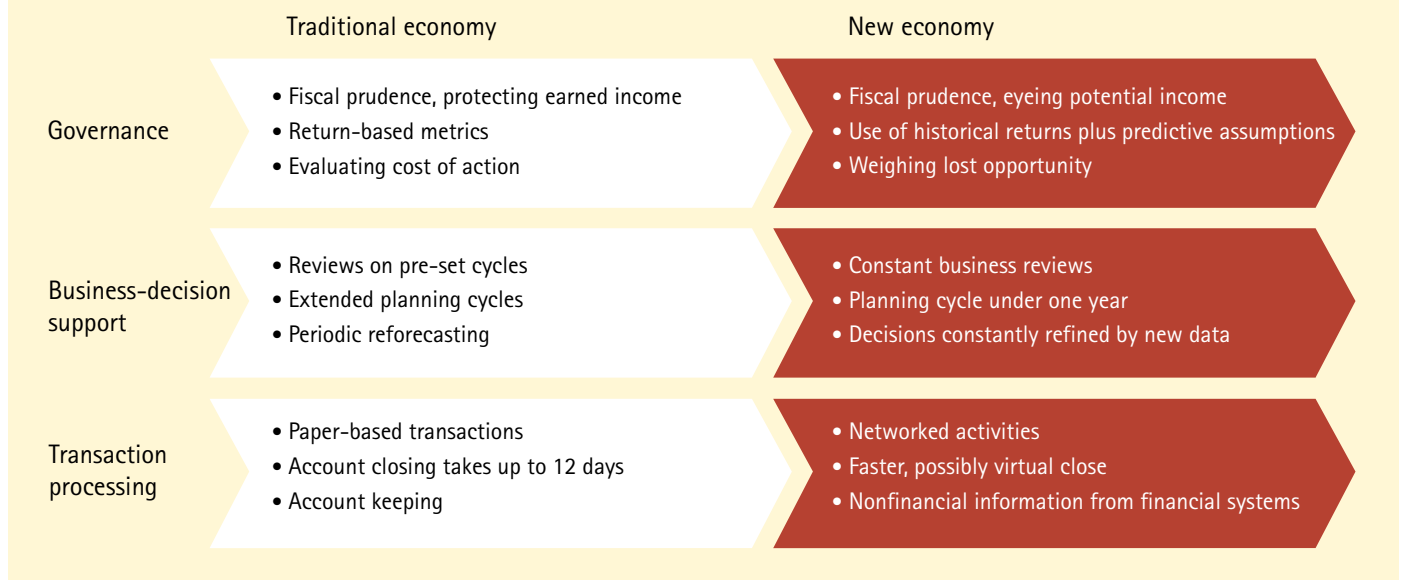
As a result, finance executives are moving from traditional analysis to valuation models in which they value both existing operations and new opportunities based on the existing alternatives. The use of portfolio management is becoming increasingly common: Multiple investment options are funded for a shorter duration to discover which are truly profitable. (For a related article, see "Get real," *Outlook*, June 2000.)

Once e-commerce initiatives are funded, new *program management capabilities* help them get off the ground quickly and deliver appropriate results. These capabilities support the management and coordination of projects across the company and allow the CFO to monitor them to ensure that they have proper

* Research for this article was based on "E-commerce and the CFO: A framework for finance in the new economy," a study published by The Economist Intelligence Unit Limited and Accenture.

Core activities

In the new economy, Web-enabled tools will help CFOs carry out three core activities more quickly, with greater accuracy and at a lower cost.



business-case development and management, clearly defined goals and sound prioritization.

Risk, of course, is another prominent feature of the new economy landscape, and e-commerce will challenge existing *internal control frameworks* and *risk management techniques*. This is, after all, an environment in which a popular auction website lost somewhere between \$3 million and \$5 million in fees in a single day due to a technology-related outage.

Companies will have to decide what levels of risk are acceptable. Managing multiple third-party entities, for example, involves an entire suite of risks. New business partners must be chosen with considerable care; access to insider information must be restricted to parties with legally protected relationships. Knowledge capital and technology need to be carefully audited, while stable technology integration and data integrity between business partners must be ensured.

When a large chemicals company recently began selling its product on a business-to-business e-commerce exchange, it had controls in place to ensure that the individuals conducting transactions were authorized by their companies to do so. It also used a system that categorizes each company trading on the exchange by size, years in business and reputation.

Business-decision support

In the new economy, the decision-making time frame has been shortened dramatically. For the finance organization, this has required a new approach to reporting, analysis, planning and budgeting. CFOs must now draw on an increasingly complex matrix of functions, disciplines and channels to measure performance and make investment decisions.

Not surprisingly, given the demands of the e-economy, companies are moving toward ever-shorter planning cycles. Indeed, our research shows that just 6 percent to 7 percent of

companies review their e-commerce strategies only quarterly or annually. By 2005 more than half of e-commerce initiatives will have planning cycles of less than a year.

As CFOs move away from historical reporting to real-time data and continual forecasting, they are employing new Internet-based information tools to help them make management decisions at high speed. *Finance portals*, for instance, are websites customized to reflect the specific roles and responsibilities of the user; they provide access to real-time instead of static data.

These integrated sites also provide access to common applications and links to management reports, accounting policies, financial rates, and competitor and market data, all of which are used for comparative analysis. A single point of access to all financial tools and knowledge lets finance executives focus on using information to support better business decisions.

Because traditional management methods do not support e-commerce ventures and operating models, companies are instituting new e-enabled *performance measures* that evaluate new channels, analyze internal and external factors that affect the enterprise, and assess strategic objectives for new business models.

One online retailer's website, for instance, has traditional tools for merchandising, content management, fulfillment and payment. But it also features a balanced scorecard that measures achievement levels for companywide objectives and generates regular reports on such key performance factors as consumer and industry awareness. As a result, the company can easily and continually measure overall performance.

Web-based technology has also greatly enhanced budgeting and forecasting capabilities. These new tools allow finance executives to do collaborative, real-time planning, forecasting and analysis. And they provide continuously updated versions of the budget—an essential asset when making vital business decisions in the e-economy.

With this capability, a leading interactive-entertainment company was able to reengineer its worldwide financial planning, forecasting and actuals reporting processes and systems, and construct a Web-enabled data-storage system with reporting, analysis and project-registration abilities. As a result, the company has access to more accurate, timely information about product profitability and is able to make better decisions.

The key to making vital business decisions in the faster-paced e-economy is *Web-based reporting*, which provides “anywhere, anytime” access to key financial information and metrics.

Best practices in e-finance at GE

To improve its financial processes, General Electric Company benchmarked the effectiveness of its finance function relative to other leading best-practice companies. It surveyed all the businesses and finance teams across the company to evaluate resources and determine what was being spent, as a percentage of revenue, on 29 financial processes. The benchmarking, completed in the first quarter of 2000, allowed GE to identify a number of opportunities to improve productivity.

The company has focused its first e-finance efforts on accounts payable, travel and living expenses, payroll and fixed assets. Thirty-five corporate audit staff members have been dedicated full-time to establishing a standard GE will use for these processes.

To monitor and support the company's progress in Web-enabling its processes, the finance group looks at metrics weekly. In supply relationships those measurements include such factors as what portion of a staff member's purchases are made through auctions, what kind of savings are realized and what percentage of the purchasing process is completely Web-enabled.

These measurements drive companywide behavior. For example, notes CFO Keith Sherin, “with the metrics we can see who's doing auctions and who's not. If you're not doing auctions and you're reporting this every week and it's something we can compare across businesses, the sourcing team from that lagging business is reminded that it ought to go and see the business that is leading, to figure out how it is going to get its process improvement quickly.”

This capability increases efficiency by introducing convenient “self-service” models that reduce the cost (chiefly headcount) associated with generating reports, that increase timeliness by providing continuously updated financial results, and that broaden accessibility by making centralized sources of information available on the Web. One large multinational manufacturer was able to reduce the closing cycle by 3.5 days and the headcount for general ledger processes by 17 percent.

Freed from time-consuming reporting tasks, finance analysts can spend more time analyzing—and because their forecasts are based on more and better data, they are more thorough and reliable.

Transaction processing

Despite the emphasis on new e-com-

merce strategies, some of the CFO's more traditional concerns remain. ERP implementations have moved finance toward higher levels of efficiency. But the finance organization still feels intense pressure to reduce the cost of processing transactions further.

Additional Web-based tools will complement these efforts, in part by supporting “lights-out accounting,” in which transactions are processed without costly human intervention. (There is a managerial downside here for finance executives: This approach will require complex, seamless collaboration with the IT department, both inside the organization and outside.)

Companies can also reduce the costly internal administration of basic finance functions. One way to do this is through the automated processing

of T&E reports. At one financial services firm, these Web-based solutions cut the cost of processing a single expense report from between \$25 and \$30 to just a few dollars and shortened the cycle time from between four and six weeks to an average of four days. T&E processing is also a good candidate for outsourcing as a means to further lower costs.

On another front, *electronic bill presentment and payment* can strengthen customer relationships and substantially reduce transaction costs by enabling customers to view and pay bills on the Internet. Bills are displayed either on the vendor's website or via third-party consolidators, such as banks, the postal service or Internet portals.

The EBPP capability can be used for both business-to-consumer and business-to-business transactions, and it appears positioned for significant growth over the next three years. A large biller with 50 million annual invoices can save upwards of \$30 million a year by reducing the cost per bill by just 66 cents, a conservative number by some estimates.

Although EBPP adoption has been slow, it continues to show promise; for example, e-marketplaces are including this capability as part of their offerings. As acceptance grows, further benefits will be realized through collaboration on the investigation and resolution of invoice discrepancies.

In addition to being cost-effective, the finance organization must help with the ongoing task of developing business opportunities and evaluating their performance. This process will require rolling reporting and real-time access to financial and operational information. This is where the *virtual close* comes in.

Through the use of a virtual close, CFOs will begin to focus more on real-time financial performance than on traditional periodic profit-and-loss statements. The virtual close offers company decision makers immediate insight into the business, allowing them to identify developing trends and—once again—to act more quickly. Companies typically close over a period of four to eight days, with many taking longer than 12 days. Nevertheless, research shows that 45 percent of companies surveyed plan to be closing their books virtually by 2005.

The virtual close will allow companies to proactively identify both threats and opportunities without waiting for the end of the month or the quarter. Daily or even hourly data on sales and margins will allow finance executives to respond quickly and appropriately to real-time changes in the marketplace. Efficient data transfer will reduce process cycle times, supporting low-cost, back-end processes, while the resulting real-time vertical exchange of information will support more effective partnerships with customers and vendors.

Nevertheless, this particular approach will be more helpful to some companies than to others. For example, real-time information can significantly improve inventory management, which is critical in sectors such as manufacturing and telecommunications, where inventory tends to become obsolete quickly. For other sectors—service-oriented industries, for example—the effort would be better directed toward refining predictive models and tying actual results to these models.

Pivotal role

These are exciting and challenging times for CFOs who want to leverage the value that new finance initiatives present.

They can supplement governance metrics with processes that make the investment appraisal of new ventures more accurate. They can lower costs by applying new finance capabilities to the transaction-processing activities. And they can become more effective leaders by introducing technology that will enable the kind of rapid decision making and implementation demanded by the new economy.

The role of finance remains pivotal to the long-term success of all companies, whether dot-com or bricks-and-mortar. The finance executives who survive and thrive in the ever-changing environment of e-commerce will be those who recognize and pursue these innovative solutions—and who keep in mind that “CFO” also means “critical financial opportunities.” ■

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