

Evolving finance

The transformed finance organization, from cost center to business partner. *by Cheryl D. Krivda*

Until the dawn of computerized systems, the primary role of the finance organization was to report company history—the data that tracked last quarter's sales, costs and profits. Now, the traditional view of finance as simply the group responsible for cutting costs,

managing the budget and reporting results is fading fast. At leading companies, finance is becoming a forward-thinking, proactive business asset that delivers strategic value to the organization. And chief financial officers (CFOs) are driving this change.

Companies at the top of their industries have a unique mastery of finance and performance management, one that allows their CFOs to generate new enterprise value, according to global management consulting company Accenture. In a recent survey of more than 200 CFOs, Accenture found that these companies are deploying finance practices that extend the competitive reach of their organizations—and they plan to do more.

“Companies today are under more pressure than ever before to deliver to shareholder expectations,” explains Michael Donnellan, senior executive of Accenture’s global products industry. “As a consequence, all of the companies we surveyed are seeking to upgrade their financial capabilities. An important step in this journey is

to create broad-based decision support for basic financial processes such as risk management, control, compliance, reporting and budgeting.”

Creating this type of decision support requires significant change. The tendency to rely on executive instinct or anecdotal evidence to develop business strategy must be replaced by a data-driven, fact-based corporate culture that drives company performance. The critical foundation for this new approach: business performance management (BPM).

Driving new value with BPM

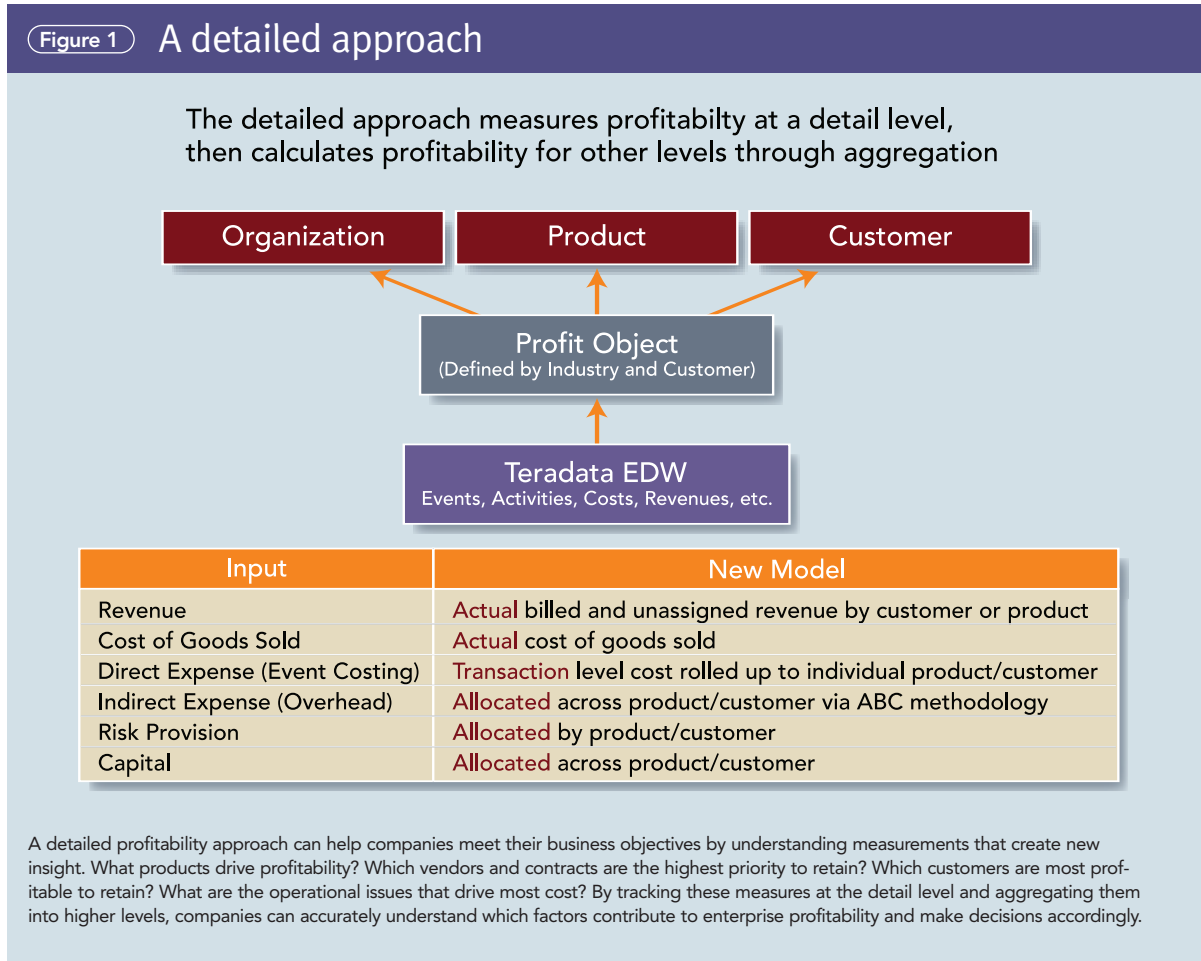
Business performance management is defined as a set of integrated, closed-loop management and analytic processes that help align, measure and manage key performance metrics used to realize

the institution’s strategy. Business performance management addresses both financial and operational activities, helping businesses define strategic goals, while measuring and managing performance against those goals.

In the first stage of this closed-loop process, a business establishes goals, determines the operational activities needed to drive the desired change, assigns required budgetary resources, develops plans to support the desired change, and deploys the necessary processes and programs needed to achieve optimal performance. The organization then measures results, assesses performance, identifies problems and modifies the processes and programs, as necessary, to better achieve the stated goals. By refining operational processes based on real results, executives

can not only better focus on the true drivers of enterprise performance but they can also take actions to enhance overall profitability and productivity.

“The CFO has often been considered the custodian of corporate financial data, but now there is an expectation that this executive must also take responsibility for helping people understand the financial implications of their choices,” says John Hagerty, vice president and research fellow at AMR Research in Boston. Simply using traditional accounting tools such as activity-based costing without linking standard costs to actual transaction activity is not always effective.



“These tools can create many back-of-the-envelope calculations,” Hagerty continues. “But people need real cost data to assess the true profitability of certain business activities. BPM can help the CFO model these processes from an operational and cost perspective, use performance management analysis to understand the true cost of service, pinpoint areas where improvements can be made and change processes where necessary.”

For example, one European retailer used BPM-driven insights to reduce its labor costs while maintaining desired customer service levels. By comparing hourly sales transactions with staffing schedules, the company was able to determine which times of the day had the highest volume and needed maximum staffing. The data, combined with BPM, became a lever of control for store managers to reduce labor costs and improve store profitability.

In another case, a manufacturer experienced huge overhead costs for sales orders. Using a deeper understanding of key performance metrics, the company realized that

sales representatives were breaking large orders into many smaller orders because it was easier to enter the data. The company changed its order entry process, which reduced handling and invoicing charges, generated significant savings and improved profitability. “Only by having those metrics, dissecting the processes and determining the impact of the different components of the process could the manufacturer understand what change was needed to reach its profitability goals,” says Hagerty.

Happy customers, enhanced profitability

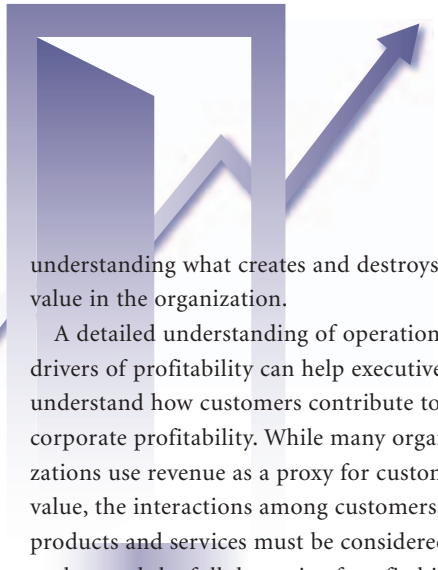
Using a fact-based, data-driven approach to model business operations can produce a goldmine of insight—analytics that show what’s working in the company and where improvements are needed. Perhaps the most critical insights to come from this process involve an understanding of the intricacies of corporate profitability. Leading CFOs are using profitability analysis to gather detailed operational information, with a goal of

understanding what creates and destroys value in the organization.

A detailed understanding of operational drivers of profitability can help executives understand how customers contribute to corporate profitability. While many organizations use revenue as a proxy for customer value, the interactions among customers, products and services must be considered to understand the full dynamic of profitability.

For many companies, it’s a question of balance: How can the company provide the highest level of satisfaction at the lowest possible cost? Analyzing key features of a product can help determine what customers value, what they are willing to pay for those features and the cost of providing that level of satisfaction.

One telecommunications company had designated rate plans for what it thought were its most valuable customers. When it used profitability analytics to examine customer behavior, however, the company found that nearly half of those customers were not profitable at all. Using detailed profitability



Analyze this! The Royal Bank of Canada fine tunes customer profitability

Many organizations begin their business performance management (BPM) journey by analyzing customer profitability. The Royal Bank of Canada (RBC), a \$24.9-billion bank based in Toronto, had long used customer segmentation analysis to better understand customer segments and profitability. But bank executives were still left wanting more behavioral information about their client relationships.

With the addition of Teradata Value Analyzer and its Teradata Warehouse, RBC was able to look more closely at its data, analyzing the lowest possible level of detail for each customer, account and product. Conducting cost and revenue calculations based upon millions of actual transactions—not just averages—for the bank’s 28 million accounts, Teradata Value Analyzer helped RBC realize that the profitability of many customers was quite different from what had been previously believed.

“Because the information resides at the account and customer

layers in our data warehouse, we were able to analyze customer segments, quickly assess customer value and determine where each account holder fits in the life cycle,” explains Kevin Purkiss, senior manager for client profitability analytics at RBC. “It’s the kind of robust analysis we couldn’t have considered when we first began looking at profitability years ago.”

Over the past two years alone, RBC has improved customer profitability by 11% per year. Bank executives, however, say that metric isn’t the final word. “Having this tool helps us understand more about our clients, their behavior and the value they bring to the bank,” explains Ted Brewer, RBC vice president of customer information management. “And it helps us understand whether we’re moving the needle forward in all of our business objectives. Like a Swiss army knife, it’s one tool that helps us analyze, make decisions and measure performance.” —C.K.



information, the organization was able to alter its rate plan, shift costs and adjust its retention methods to increase profitability.

But companies must be willing to delve deeper into the profitability metrics, analyzing their entire product suite and customer universe and then make use of that information. Business executives must ask the more detailed questions and make the necessary changes to maximize their product value, customer retention and, ultimately, the profitability of their companies.

With unparalleled financial skills and access to the key data, the finance organization is best prepared to help the organization. Finance understands the calculation and methodologies needed to determine profitability. Results derived from finance's analysis can then be used throughout the organization.

Taking an enterprise view

Yet establishing a performance culture to understand profitability and other measures of business success is no slam dunk. Enterprises must consider BPM to be more than support for financial operations: More importantly, it is a tool to enhance performance across the organization.

"The most successful performance management programs connect the dots between specific operational activities and their implication for profit and loss," says Hagerty. "In that way, they discover operational aspects of the business where finance can enable the company to improve performance by providing insight to operational leaders about the impact of activities on both the top line and the bottom line."

In addition, organizations must carefully build the appropriate framework for BPM.

enterprise use analytic data to make better decisions is no small responsibility. Yet the magnitude of the task shouldn't cause delay.

Companies can begin their data-building process immediately, then continuously improve the quality of the data and metrics. Tremendous value can be gained from these initial efforts and greater value can be realized as more pieces are put into place. Building an EDW should be considered a work in progress, not an endpoint.

The finance organization must also recognize that groups such as marketing and other operational business units are the customers of corporate performance metrics. If finance resists launching an analysis project until accuracy or completeness meets its standards, operational units seeking data support will view the CFO as an obstacle to success. In response, finance will be blocked from participating in those decisions, thus eliminating any possibility of consistent performance metrics across the organization.

"The role of finance is not to play gatekeeper," says Gartner's Herschel. "It is to create and supply the data and to help these groups understand the financial impact of their decision making. That's the best way to become strategic."

In the end, the CFO's responsibility is to drive change throughout the company. "Beyond maintaining consistent downward pressure on non-value-adding, manually-intensive transaction processing activities, financial executives must look forward," says Accenture's Donnellan. "They must also renew their efforts to upgrade decision support and analytics capabilities. It's the best way to drive new value in the broader enterprise, not just in the financial organization." **T**

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"Finance can offer a clear understanding of the cost structure of the business to other organizations, such as marketing or sales," says Gareth Herschel, research director at Gartner. "That's the kind of robust analysis that helps the organization to understand the profitability of these behaviors and to perform the solid analysis that will drive effective change."

Finance can also ensure that the definitions of profitability are consistent across the organization—preventing different organizations from developing siloed views and uses for the data. In addition, by tracking data at the lowest level, finance can help users understand profitability from a variety of viewpoints, such as customer, product, organization, channel or vendor.

What's needed is a technology infrastructure that centralizes all critical information in one place, making it available to decision makers so they can see high-level information and drill down to more detailed data that allows them to take action.

While ERP systems give different views of the various pieces of the data, an enterprise data warehouse (EDW) houses the information in one place, offering a single vision of the organization. With an EDW, business executives can access the information, ask specific questions and act upon those results.

Reaching beyond finance

For the CFO, helping groups across the