

Survival and success

Setting the benchmark for smart finance



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The UK has entered what could be a deep and prolonged recession, in which even the most well-established corporations may struggle to sustain profitability and investment. However, these testing conditions will also enable agile firms to steal a march on their competitors and emerge ready to take full advantage of the eventual upturn. As a result, the FTSE rankings may look very different in five years time.

The performance of finance functions and the audit committees that oversee them will be critical in the effective management of the downturn. The fundamental challenge they face is how to take cost out of the business without heightening risk or jeopardising the firm's ability to capitalise on opportunities – eliminating the flab without cutting away the muscle.

This report outlines some of the early indications from the assessment that PwC's team of Benchmarking specialists has been carrying out amongst the finance functions of leading UK companies. They have applied the skills they use to provide benchmarking services to a variety of organisations, to assess finance effectiveness across three dimensions: business insight, efficiency and compliance and control, attributes that are crucial to survival and success.

Our initial findings underline the vital importance of cutting through complexity. This means streamlining operations to reduce costs and improve efficiency. This means distilling a profusion of data into commercially valuable insights. Ultimately, it means equipping the corporation to move quickly and decisively, be this through acquisition, divestment or new market entry. This report examines how far finance functions have come and how leading firms are addressing the challenges ahead. The data is sourced from a number of our largest audit clients, to whom we offer this as a complimentary service, and more in-depth data from our finance function benchmarking service.

Further details of the offering can be found on page 9. If you would like to complete an assessment or would like to discuss any of the issues raised in this report, please contact your usual PricewaterhouseCoopers representative or visit www.pwc.co.uk/financebenchmark



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Executive Summary



The finance function has come to a crossroads. In today's tough economic climate, CFOs and their teams are being called upon to provide more advice to the business, while enhancing the cost-effectiveness of performance analysis, reporting and transactional management.

As balance sheets come under ever more intense stakeholder scrutiny, CFOs are also increasingly becoming the public face of the enterprise.

Once the current storm eventually subsides, some finance professionals may prefer to step back into the background and primarily focus on their administrative roles as bookkeepers and monetary custodians. However, successful modern commerce demands more from finance. Moreover, many finance professionals may wish to take advantage of their current prominence to strengthen their long-term standing and influence within the business.

Achieving this ambition will demand the agility and commercial savvy needed to enhance the strategy and performance of the enterprise. To be an effective advisor and ambassador also calls for strong engagement skills. The underlying challenge is how to balance the potentially conflicting demands of insight, efficiency, compliance and control to deliver the most effective value to the business.

The initial findings from the benchmark study highlight four key hurdles that will need to be overcome to enable companies to leverage the full value of their finance functions:

- Ensuring finance functions have the expertise, credibility and commercial focus to evaluate business options and inform strategic decision-making
- Ensuring management information is clear and forward-looking enough to identify opportunities
- Standardising processes and harnessing technology to effectively match capacity and demand, while freeing resources for value-added tasks
- Agile approach capable of accommodating business expansion and/or divestment

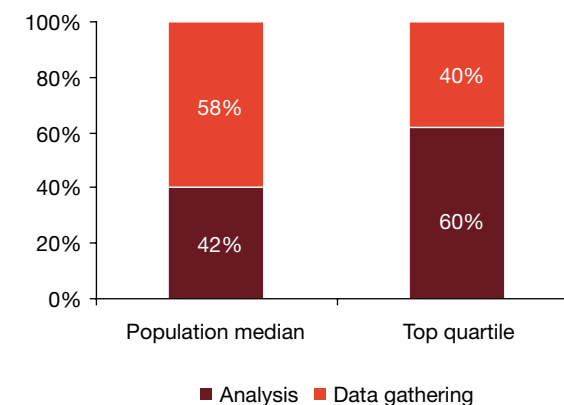
The results to date raise concerns about whether many companies are equipped to meet these objectives. As Figure 1 highlights, less than 10% of finance functions regard themselves as true business partners. Their ability to provide insightful business intelligence is called into question by the fact that less than 15% of the organisations surveyed claimed to read more than three-quarters of the management information currently being supplied.

However, some leading companies are now beginning to set the benchmark for 'smart finance'. It is noticeable in particular that while most finance functions still spend the bulk of their time on data gathering rather than analysis, analysis now predominates within the top quartile firms (see Figure 2). This would indicate both greater efficiency of process and an improved ability to support the business.

Figure 1: Role of finance



Figure 2: Percentage of time spent on data gathering versus analysis



Safely managing cost out of the business

03



Geared for success

Simplification cuts cost, while making businesses easier to control.

Acquisition, globalisation and business diversification are creating ever more diffuse and complex organisations. Many CFOs are naturally keen to cut costs and improve efficiency by consolidating their various finance operations worldwide.

Complicated business structures and multiple regulatory regimes can make streamlining problematic. Finance functions face the further dilemma of how to reduce overheads without compromising control or support for the business. However, it is clear from the initial findings of our study that some businesses are overcoming these challenges more effectively than others. As Figure 3 highlights, top quartile performers operate at much lower cost than the pack, while sustaining high levels of insight, control and efficiency.

Convolved legal structures raise the cost and complexity of audit and financial reporting. Simplification is the obvious answer. Our study reveals that better performing finance functions maintain fewer than 30 legal entities per billion pounds of revenue. In our experience, companies that have integrated their operations more closely have not only reduced costs, but also improved governance and visibility for the CFO.

Standardising processes can not only cut costs, but also speed up delivery and reduce operational risk. The limited extent of standardisation is therefore surprising. For example, less than 15% of respondents have standardised the end-to-end transactional processes such as purchase to pay. Many more have standardised discrete elements of the process such as accounts payable, but often without fully utilising technology enablement. As Figure 4 highlights, non-standard processes can have a significant impact on the cycle time of days to close.

Streamlining IT and greater automation can also help to enhance transparency and control. However, over half of respondents are using more than three finance systems (see Figure 5). Even where processes have been automated, their use has often been limited by problems with application and operational disruption. Top quartile companies have overcome these problems by aligning the introduction of new systems with steps to improve customer service and enhance the effectiveness of controls. Our work with clients also underlines the importance of strong executive sponsorship in ensuring that implementation runs smoothly.

Many companies have developed shared service centres (SSC) to centralise processes and take advantage of potentially lower cost locations. However, the results have been mixed. It is noticeable that more than 50% of organisations reported their transactions are now processed centrally by a SSC, although less than 10% reported any element of functions further up the value chain being performed in this way.

While we believe that centralised sourcing can be effective, it cannot work properly without firm-wide standardisation of systems and processes. The mixed fortunes of many sourcing initiatives also underlines the importance of ensuring that in a scramble to cut costs, the business does not jettison the people and operations it needs to compete, grow and deliver strategic objectives. For example, our benchmark analysis has found that what appeared to be a money-saving sourcing contract had actually left a particular company with some of the highest costs per transaction of any in the survey population. The remaining finance team was also unable to provide the decision support the company needed to re-position itself in a changing market.

Figure 3: Finance costs as percentage of revenue

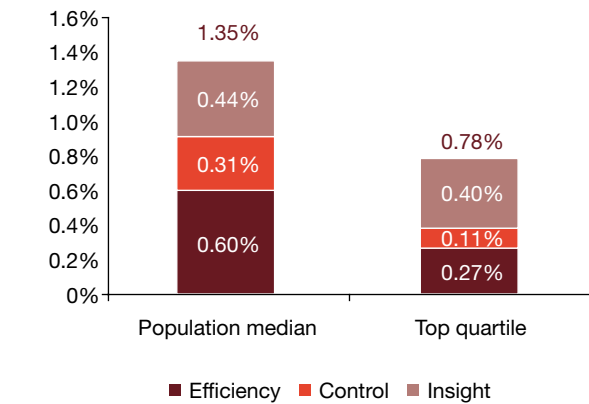
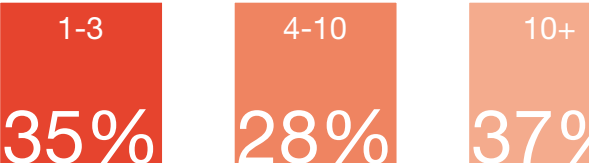


Figure 4: Days to close and report financial results



Figure 5: Number of core finance systems



Management information

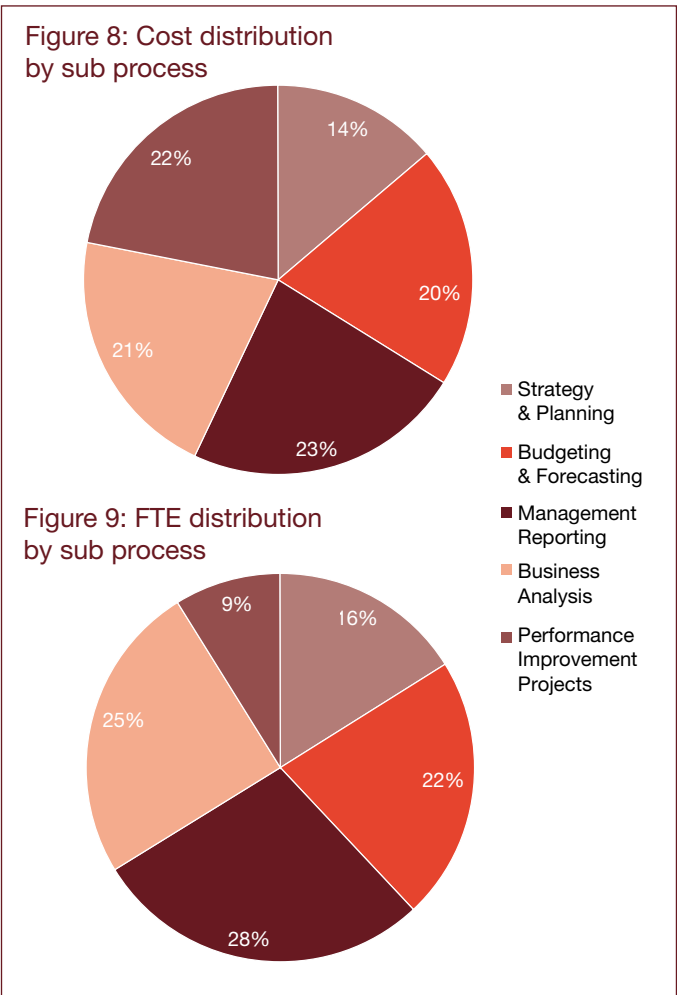
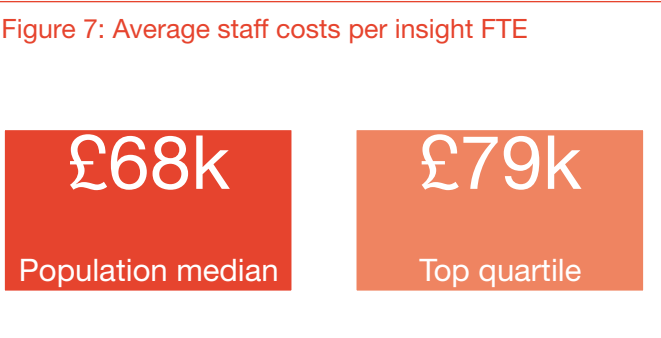
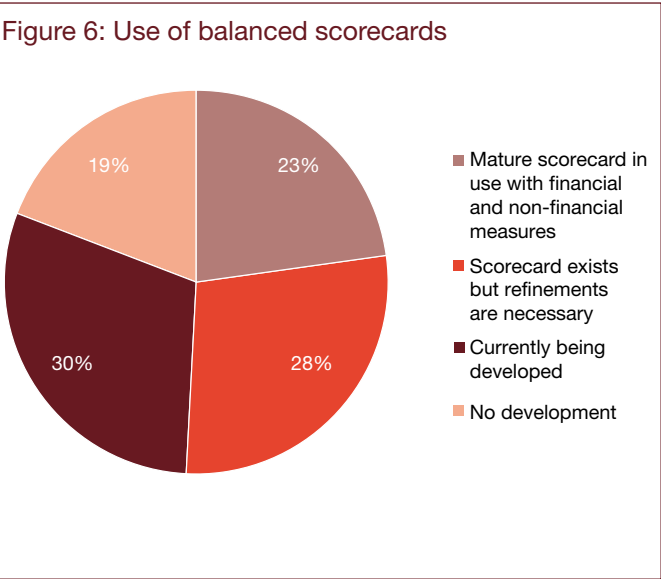
The most competitive firms are refining raw data into market intelligence.

The top performers in our survey are developing intelligent metrics that can be embedded into the organisation to enhance strategic evaluation and investment targeting. Finance is at the forefront of these initiatives within a number of companies, for example through the development of balanced scorecards that combine financial and non-financial information (see Figure 6).

However, in many other companies, boards are being overwhelmed by a deluge of largely unintelligible and unusable data. Working more closely with recipients within the business could help finance teams to understand their expectations, discern what analysis would be most valuable and how it could be most accessibly presented. As Figure 7 highlights, top performers are willing to pay more for higher quality insight. This more focused approach can not only enhance decision-making, but also eliminate unnecessary analytical costs.

Ensuring data integrity and consistency through the development of a central repository can greatly enhance business teams' trust in the information coming from finance. However, while more than 60% of respondents draw financial data from a central source, only 30% reported the same for commercial data.

The result leads to top performing organisations adopting a balanced allocation of resources across the business insight sub-processes, as reflected in figures 8 and 9.



Capability & capacity to add value

Being a business advisor demands commercial acumen and engagement skills, as well as financial qualifications.

A key challenge facing organisations in our survey is that people with these diverse capabilities are in short supply. As Figure 10 highlights, only around 10% of finance team members act as a business partner within most companies.

Rather than upping salaries to recruit the people they need, many forward-looking firms are looking at how to improve their ability to nurture talent from within. This includes embedding finance academies within their organisations to co-ordinate training and development.

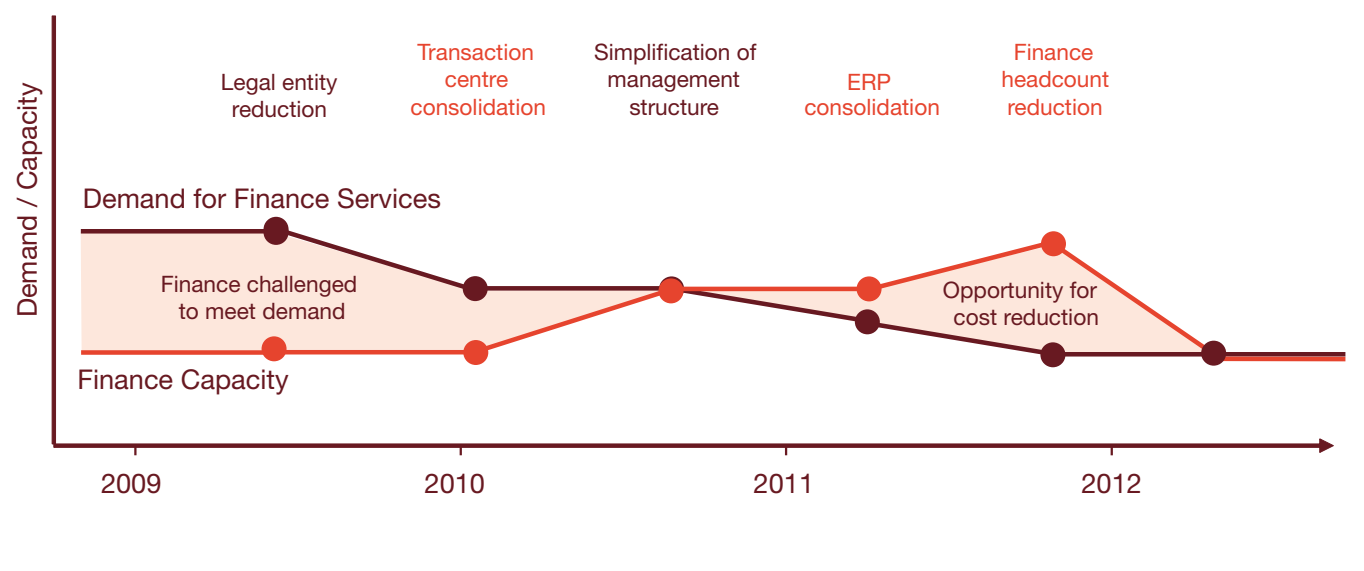
Greater efficiency can cut the cost of routine tasks, while enabling staff to devote more time to analysis, advice and other value-adding activities.

As Figure 11 outlines, harnessing technology, streamlining processes and other such efficiency improvements described in this report will enable finance functions to develop the capacity and agility to meet changing demand – the essence of ‘smart finance’. The key benefits are not only sustainable cost reduction, but also more effective control and greater time and scope to support the strategy and performance of the business.

Figure 10: Percentage of Finance FTEs in business partnering roles



Figure 11: Demand vs Capacity



Finance function benchmarking

04



Approach to benchmark evaluation

As finance functions seek to develop the capacity and capabilities for survival and success, our benchmark analysis can provide a clear assessment of strengths and weaknesses.

The results enable CFOs to compare themselves to similar organisations, identify areas for improvement and formulate a convincing business case for change. Regular updates enable the CFO to chart progress and sustain the momentum of development.

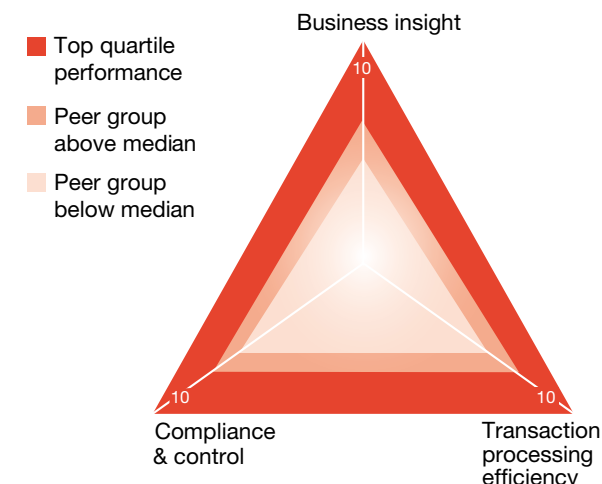
The analysis combines a qualitative assessment and comparative metrics across the complementary dimensions of business insight, efficiency and compliance and control. Business insight combines such evaluations as a comparison of time spent on analysis and data gathering and an assessment of management's reliance on the resulting forecasts. Efficiency includes a range of key determinants including the cost of finance teams, complexity of systems and time to close/report. Compliance and control examines such areas as accountability, risk management and culture within the organisation.

The resulting analysis not only compares these ratings to similar organisations, but also seeks to assess whether they are operating in equilibrium and are meeting the overall objectives of the business. For example, over-emphasising cost may inhibit the function's ability to provide insight and value. The key differentiator of this analysis is the interpretation provided by combining our knowledge of what top performers do with our detailed understanding of our clients and the industries they operate in.

The benchmark analysis is one of the services offered to PricewaterhouseCoopers audit and non-audit clients. We will be evaluating the results from the companies that have taken part in the study and the findings will form the basis of a further report to be published in the summer.

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Figure 12: Competing demands



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