CFO

Adaptive Insights

What the Best CFOs Do Better: Secrets for Smarter Decision-Making

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BALANCING COST CONTROL WITH GROWTH: HOW HIGH-PERFORMING COMPANIES GET THINGS RIGHT

Support functions keep trimming costs, but that isn't what matters most for success.

Over the past two years, companies cut an average 18 percent of their general and administrative costs, according to a recent Bain & Company survey of support function heads and executives who run business units in roughly 770 U.S. companies. Yet these results did not translate into higher satisfaction for many operating executives. Some 60 percent of the executives survey surveyed still rate their support functions as high cost, ineffective or both.

Meanwhile, the leaders of those support functions often fret that continued cost cutting hurts service quality and leads to lower satisfaction. But recent data shows that the top performers in service quality consistently performed better on efficiency metrics, whether based on revenue or headcount.

For CFOs, the challenge is two-fold. First, it's getting harder to make cost savings stick. In the Bain survey, while 78 percent of executives were confident in their ability to achieve their cost savings goals, only 58 percent successfully delivered on their targets, and only one in four sustained their savings after two years.

Second, support functions have to adapt to the changing expectations of their internal customers. Business leaders want finance, human resources, marketing and so on to evolve from operating resources and cost centers into full-fledged partners in executing strategies.

To create lasting improvements in efficiency and effectiveness, high-performing companies focus on getting four things right:

1. The appropriate role for support functions, so that each one can anticipate and adapt to evolving trends in external market conditions, business strategy and culture. Finance, for example, no longer simply compiles reports on past performance. Now it plays a prominent role in helping business leaders make better business decisions.

2. The service portfolio and service levels, determining which activities should be best in class and which can be simply good enough to meet business needs and manage demand. When Kraft Foods reviewed its marketing budget, it found that spending on shopper insights often exceeded what the business units required. Not all businesses needed the same level of customized research, and instead could often work with lower-cost standard or syndicated research. Making that change reduced costs by nearly 20 percent while aligning marketing more closely with the priorities of the business units. For other organizations, this may mean improving access to better data for decision-making. Once CFOs can identify and focus on the KPIs that matter, they can better manage demand and service levels.

3. The service-delivery model, fundamentally changing how work is done in order to simplify and eliminate low-value activities. A zero-based budgeting approach examines which activities are truly necessary and how they should be performed, as well as which could be eliminated. Kraft had gone through several rounds of cost cutting, but none of them had fully dealt with the root causes of cost and complexity. The typical business unit had responsibility for profits but had direct control of less than one-third of its overhead costs. In 2011, Kraft decided to examine costs over the entire cycle of a process, regardless of which budget line item it appeared in. With costs revealed, senior management gained consensus to establish a rule that if a business unit bore more than 70 percent of the cost of a shared service, that unit had complete authority over the cost and nature of the service. This simple ground rule changed the game, creating a greater sense of accountability and a customer-supplier mentality.

4. The right people in the right jobs with the right processes, systems and incentives. A plan for changes and a new organization chart may look great on paper, but the plan will fail to deliver the expected results without the right elements in place to make changes stick. Systems and tools should support the organization, as well as its need to remain competitive. This includes reducing the time functions spend on low-value activities. Once these processes are automated, employees can focus on activities that drive greater value for the organization.

A global beverage company dealt with this issue as it became more centralized around business units. Finance's costs were 50 percent higher than industry benchmarks, and service quality ranked below average. The new organization separated decision support from transactional work, but many people weren't prepared to take on these dedicated roles. So the beverage company had to retrain some of them, moved others into different positions and recruited new people with the right skills.

Finance and other support functions won't succeed as order takers responding to any and all requests. Rather, they will thrive as order makers, actively identifying customer needs and shaping demand. It's one thing to have a seat at the table but quite another to be perceived as a full business partner.

CFO Summary

- Despite the cost-cutting efforts of recent years, executives still report that their support functions are high cost, ineffective, or in the worst cases, both.
- Although finance chiefs may be concerned that cutting costs is to blame for lower levels of quality service and customer satisfaction, data has shown that top performers are doing more with less.
- Finance no longer compiles reports on past performance; now the function plays a prominent role in helping business leaders to make better decisions.

GOOD, BETTER, BEST: QUALITIES OF TOP CFOS

Over the past decade, the CFO's role has expanded more than ever before. While once relegated to core finance responsibilities, many finance chiefs today play a more strategic role within their firms. As the CFO's role evolves, so do the qualities that make for a great finance leader.

What qualities typify excellence in a finance chief? Technical abilities? It's "completely irrelevant," Ian Tyler, chief executive officer of Balfour Beatty, told an audience of well-qualified CFOs from England and Wales. "That is a commodity that you can buy. I'm not saying that it's not important in the wider world, but for the purposes of what makes a great CFO, it's irrelevant."

The perennial theme of what makes for greatness in a senior financial executive was featured at a one-day conference in London organized by the Institute of Chartered Accountants in England and Wales.

"There's a really big difference between a good CFO and a great CFO," Tyler, the top executive at the infrastructure-services-business giant, said during a panel discussion at the conference.

For Tyler, a great CFO is part of a very small team of people who run the business: "and I mean, really run the business. One of the corporate myths is that CEOs run companies," he said. "They don't. Within any company there is a small group of people who ultimately take the decisions, and to be part of that team is a question of reality, not status. You first and foremost have to be resolving the balances in the business."

Nor, added Tyler, is there any place on that small management team for anyone who comes at things with a single point of view. "Anybody can have a single point of view on something. It's the resolution of those points of view that is key, and a great CFO has the ability to do that," he said. "A great CFO ultimately is first and foremost part of that senior management team — and a very distant second, running the finance function." To look beyond the finance function, CFOs must have visibility into the entire organization, including operational metrics.

Fellow panelist James Cheesewright, CFO of Eurostar, a passenger-train service that runs from London to Brussels, Paris, and other destinations in France, said that great CFOs are those who can make a difference: "It's the value that you add in the discussions that take place around the senior management or board table. That comes through understanding how an organization works, understanding what's important to your colleagues at the senior management level, and then making a difference accordingly."

He added a caution: "If you go to a board meeting and the numbers are slightly off or you can't explain something, a little bit of credibility dies. Get them off by a lot and you just won't be around."

What really matters, though, is "having the experience and the confidence to distill down in simple words how you think you can make a business better or how a company can be made better. Data and analysis really help with that process. If you are able to present that, it's an enormously powerful position."

Tyler asked, rhetorically, how much time does the CFO spend in front of customers?

"If you don't have an instinct to go out and talk to your customers, you really don't have a place around that senior management team. You have to have the instinct to want to go and find out where value is created," said Tyler. "And if you don't, you might be a good CFO. But as far as your stakeholders are concerned, you'll never be a great CFO."

CFO Summary

- To shift from good to great, CFOs must make a difference. These CFOs have become true partners with the business, rather than simply running it.
- Another differentiating factor for great CFOs is their ability to look at a problem from many points of view, and to find a resolution among these often disparate notions. Gaining visibility into the entire organization, not just the finance function, can help CFOs to make a difference.
- If your data isn't accurate, it can be a big blow to your credibility as CFO. Make sure you're not only communicating well, but also armed with the right information.
- Experience and confidence are also important qualities. Great CFOs aren't bogged down with administrative tasks; instead, they focus on understanding and improving the business as a whole.

FINE-TUNED DECISION-MAKING: STRATEGIES FOR CFOS OF GROWING COMPANIES

Like Jack's beanstalk growing furiously to an unknown destination, many organizations begin with the germ of an idea that sprouts rapidly. Astonishing growth occurs seemingly overnight, and all eyes are focused on maintaining the pace. Then, the time arrives for financial controls and rigor, and a tough-skinned CFO to implement it.

To business leaders, the CFO is nothing but trouble, someone who is simply going to slow down the growth, restricting the capital that feeds it. The CFO was often viewed as a "wet blanket"—vetoing exciting projects and thinking only about the bottom line.

Today, however, the role has changed, says Child. "Never in history have we seen people create a business and it be a billion dollars or more in a couple years," he says. "Now, thanks to the Internet and some pretty remarkable technologies, growth trajectories are fast and stunning. A CFO saying no isn't always the best response. There's a balance you have to strike so you don't slow down the train, and still keep on track at the same time."

This balance is what finance chiefs at fast-growth enterprises like Wayfair and Blurb are trying to accomplish. Each sprinted off the starting block like Usain Bolt, then reached a point where a seasoned CFO was required to instill financial discipline.

"It's a constant balancing act between growth and profitability," says Michael Fleisher, CFO at Wayfair, an online retailer of home products and furnishings. "In a mature business, the CFO cares about profitability. With a rapidly growing business, the conversations are more about "How do we keep feeding the engine?'"

Blurb: International Complexities

But what if the promise of international sales is so tantalizing that the financial consequences are undervalued? This was the case at Blurb when Gene Domecus signed on as CFO in August 2012. The idea for the self-publishing bookmaker took root in 2005, when founder and CEO Eileen Gittins gathered a team of design, Internet, and media veterans to create an online platform where everyone from Aunt Izzy to famous authors could design, publish, and promote their books using Blurb's full suite of bookmaking tools, and keep all the profits from the sales.

The concept was a winner. In 2010, it was the top media firm on Inc. magazine's list of the 500 fastest-growing U.S. private companies. Two years later, Blurb shipped 1.8 million books to more than 69 countries and territories. All that growth came with a price, however. "We had just gone global when I arrived, and no one had appreciated the impact taxes and duties would have on profits in certain countries," says Domecus, a veteran finance chief who served prior CFO stints at Rafter, Bella Pictures, and Macys.com.

"Going international was a very smart decision, but there were logistics and delivery complexities that I needed to point out — not that everyone was happy to learn the truth," he adds. "At that point in time, all that mattered was growth. The goal was to spend money fast to subsidize our growth and maintain our early-mover advantage before competitors took their share."

The complexities Domecus references were the different descriptions of what constitutes a book for import-tax purposes in different countries. "A book is not a 'book' in every foreign jurisdiction," he explains. "In certain places, it was considered a photo album or a planner or stationery, each with different duties based on the specific definition."

As he uncovered these distinctions, he realized the need for a wholesale audit of Blurb's book sales on a global basis. "We needed transparency into the financials that highlighted the P&L country by country," he says. "All of this was not visible before."

The audit shed light on a particular problem: In some countries, the duties and other taxes were so hefty that Blurb, which historically had picked up the tab for shipment, barely broke even. This leakage varied widely, with the worst-case example exceeding 100% of the book's revenues. "The simple solution would have been to charge the customer for the shipment, but this broke with tradition here and was widely unpopular," says Domecus. "The thinking was that volume would make up for the impact."

Not wanting to be Dr. No, Domecus was left with a tough decision. "At some point, we could not possibly win in a particular country — my challenge was to prove this," he says. "I had turned the visibility on to duties and taxes. Hard choices now had to be made."

Domecus decided that in countries where the duty rate is between 2% and 7%, Blurb would continue to absorb full shipment costs, including related duties. That took care of about 30 countries. The same decision was accorded those countries where Blurb enjoyed a substantial volume and duties hovered between 12% and 18%. That took care of another 20 countries or so. The bigger problem was determining whether or not to absorb the expenses in countries where the duties were in this range but volume was low, and in regions where the volume was significant but the duties were stratospheric.

"We're at the threshold of making these determinations, but my gut tells me the economics are not sustainable," says Domecus. "I keep throwing the negative margins in front of people and pointing out that this is not livable long-term. But the focus is still on the top line."

CFO Summary

- The role of the CFO has evolved due to several factors, including the advent of technology that has transformed business growth trajectories.
- CFOs today must strike a delicate balance between growth and profitability.
- As companies evolve, so must processes and tools. Although some functions may resist change, CFOs must lead this charge so that companies don't wait until it's too late.

THE NEW SPEED OF BUSINESS: MAKING REAL-TIME DECISIONS WITH DASHBOARDS

CFOs spend plenty of time studying both operational and financial metrics. But in order to track key data points, such as receivables and on-time shipping performance, they often are forced to sift through separate daily reports that land in their inboxes as e-mails or spreadsheets sent from the company's business units.

While this approach may work, it's far from ideal. In response to this inefficiency, some companies are now implementing a formal, integrated dashboard that will enable the finance chief and other business leaders to monitor a wide array of key metrics through a single platform. The move will streamline financial analysis by integrating the numbers so that executives can more easily monitor them and communicate them to the CEO. There is also the potential for cost savings, because it can save employees the time and effort they currently expend creating and disseminating multiple separate reports.

Dashboards have been around for many years, but it has taken time for their actual usage to catch up with their intuitive appeal. As business conditions become ever more volatile, however, and as companies lose what little margin for error they had in terms of responding to unpleasant surprises, interest in dashboards is accelerating. Companies are also starting to broaden the range of metrics they can access from dashboards, says David White, a senior research analyst at Aberdeen Group. While in the past senior executives might have focused solely on high-level metrics like sales revenue and profitability, they now use dashboards to track operational and tactical metrics, such as how many new accounts sales representatives have acquired in the last quarter.

Having this data on hand also improves a finance chief's ability to plan for the future. As new opportunities and unforeseen events crop up (and they always do), CFOs can more-nimbly adjust their plans based on analytics. Instead of fighting change, CFOs are armed with the data they need to update their plans and better allocate resources.

When You Need to Know Now

One major appeal of dashboards, according to White, is that they can help executives narrow the "decision window" — the period of time they have to make a decision after a business event. A recent Aberdeen study found that 64% of business managers have seen their decision-making time shrink over the last year. A different Aberdeen survey found that 28% of business managers said they needed data to make decisions within an hour of a business event; another 42% needed information within a day.

"There's a lot of pressure on the organization to take in raw data and to turn it into useful information in a time frame that suits the business," White says. "There's tremendous pressure on these operational managers to respond faster, and old-fashioned business intelligence is just not intuitive enough."

As an example, if a dashboard showed that sales revenue was not on target, a CFO would want to know more, like what region had the lowest sales, or what product was lagging. For some finance chiefs, getting those numbers often means asking a junior finance staffer or someone in IT to dig them up, which could take days. Deploying dashboards that allow CFOs to drill down to the specifics themselves enables them to make decisions faster.

A Leg Up

As the competition starts using dashboards, it becomes more critical that finance chiefs evaluate the potential of the technology. Operational metrics in dashboards can help firms to gain a competitive advantage.

Still, financial metrics remain critical. "By and large, companies . . . are interested in the basic revenue cycle and cash cycle fundamentals," says David Pefley, CFO for Adaptive Insights. "I think [most businesses] should be focused on bookings, the sales funnel leading to the bookings, the revenues, the receivables, and collections," he says.

Dashboards can be designed to enable CFOs to combine the two approaches, providing both a financial overview and a deeper look at granular operational data. And they will continue to evolve with advances in technology making it easier than ever before for the finance function to gain insights.

CFO Summary

- Manual processing data from disparate reports is inefficient; consider implementing dashboards so that executives can better monitor and communicate data.
- Dashboards can now go beyond high-level metrics to provide insights into operational and tactical metrics. CFOs have the opportunity to combine both, providing a "big picture" view of financial data, as well as a granular view of operations.
- CFOs can't wait to make decisions. Fortunately, dashboards help to narrow the "decision window" so that finance chiefs can make a decision sooner after a business event.

Sources for *What the Best CFOs Do Better:*
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SPONSOR'S PERSPECTIVE: IT'S NEVER BEEN A BETTER TIME TO BE IN FINANCE

If you've been in finance for years you may have noticed a change. The role of finance is shifting—every leading analyst, survey, and indicator points to how finance has elevated to become the most strategic role of the company. The organization is now looking to finance to do more than just simply tally the numbers, invoice customers, pay vendors, and manage the budget process. Finance has moved into a strategic position. In fact, according to Accenture over seventy percent of CFOs have seen their strategic influence increase over the last three years — with a material increase in responsibility over setting and determining strategy.

But what does that really mean for you? As finance moves into a stronger position, it's going to be critical to maintain operational excellence to execute and manage the top and bottom lines flawlessly. That means having a more complete view than the accounting measures of old can provide. Better yet, they're asking the hard questions around what business initiatives pass muster and those that do not: From strategy insights, such as weighing whether a new product release will add more value than an acquisition, to business performance questions, like evaluating the return on sales and marketing efforts, to understanding how to best organize a workforce that balances business needs and cost.

The solution to these issues surrounding finance's new, elevated role is understanding and harnessing the power of modeling, planning, forecasting, and analysis. It's the new "operational system" for finance, and the reason that that the CFO is now the #1 executive in charge of analytics initiatives[1] — even ahead of the CIO. In an age where data is a competitive advantage, CFOs are leading the charge and being asked to do more. In response, CFOs are prioritizing technology that drives improvements in "analysis and decision making" and "ongoing monitoring or business performance."[2] Systems that drive data and decision making are the new ERP for finance.

And organizations making the shift are benefiting from the rewards. Data-driven organizations are proven to perform better. A landmark study by McKinsey, found that organizations' analytics effectively show productivity rates and profitability that are 5 to 6 percent higher than those of their peers. Finance is proving that being in charge of business performance can have a material impact on results.

It's time for finance leaders, like you, to face the challenge head-on. And the technology you need to be successful and within control is now available. That means taking the first step to do less of what saps resources, and more of what adds value.

[1] Deloitte

[2] Gartner's June 2014 survey of "Critical CFO Technology Needs" of 230 CFOs.

They need to be able to use systems that can really help model and make better decisions without relying on IT. Done right, the result is more time to do what matters: Leading with insight.

However, moving to a more-agile finance function—that's leaner on process and responsive to changing business conditions—requires rethinking current systems. For many, it's simply a case of reevaluating whether Excel is the core platform for finance to scale on. For others, the same old FP&A systems they used in the past aren't the future. Big, on-premise FP&A and Business Intelligence applications that take legions of IT to care and feed, require technical wizards to make every change and update, and are expensive to maintain simply cannot keep up with the growing demands of finance's role.

At Adaptive Insights, we're focused on one thing: helping finance make the leap to strategic leadership. By giving you anytime, anywhere access to your budget, plan, forecast, reports, and analyses, your organization will be better able to focus on driving stronger business performance.

By putting our clients' success first, we're rated #1 in customer satisfaction by every leading analyst. We've been helping finance leaders like you for over ten years, across more than 2,300 organizations and 85 countries, from mid-size firms to enterprises. Companies like Coca-Cola, Nikon, AAA, and Siemens have been able to cut their budgeting, planning, and reporting cycle times by 90%+. And for those running old, on-premises systems for planning and consolidation, we've cut their costs by 75%+.

But it's not just about speeding up and cutting costs. It's about getting you where you need to be, faster. Because Adaptive Insights is delivered in the cloud, it's easy to get started delivering incredible results for your organization.

The transition to leadership is only just the beginning for finance functions. Make sure you have a seat at the table and make a profound impact on financial performance. Click here to learn more about how we can help you transform your finance organization.