BusinessWeek Research Services

Not Small Change:

World-class Financial Automation Delivers Dramatic Benefits

Replacing manual and disjointed financial processes with an enterprisewide system cuts costs and improves operational performance. It's the rise of straight-through finance.

An exclusive research report

SAP

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Table of Contents

Executive Summary

- Automating finance processes such as closing the books, reporting, accounts receivable, accounts payable and other labor-intensive processes reduces finance costs. By streamlining finance processes, finance professionals can spend more time on higher value responsibilities.

- A streamlined finance department provides more forward-looking decision support and strategy guidance to the business.

- The more nimble the finance department, the better prepared a company will be to identify and take advantage of opportunities and deal with unexpected challenges.

- Financial value chain automation gives companies a competitive advantage—the best implementers have 45 percent lower finance department costs than the average company.

- World-class finance automation results in a 50 percent productivity improvement in accounts receivable and payable processing.

Methodology

BusinessWeek Research Services (BWRS) launched a research program in spring 2007 to determine the views of finance executives concerning the implementation of finance management best practices and the transformation of the finance department by automating as many transaction processes as possible.

This white paper includes in-depth telephone interviews with senior executives at large and mid-size companies known to be streamlining finance processes via automation, among other efforts. The following organizations participated in the research:

- Brown-Forman Corp.
- Cardinal Health Inc.
- General Mills Inc.
- Global Insights Inc.
- Microsoft Corp.
- Risk Metrics Group
- UPS Capital Corp.

In addition, leading consulting and research firms and prior BWRS reports were consulted to provide context and background.

Triangle Publishing Services Co. Inc. supported BWRS in the research, the in-depth telephone interviews and the writing, editing and production of this report. BWRS and the author of this report, Connie Winkler, are grateful to all the executives who provided their time and insights for this project.

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For more information about this project, please contact the Director of Primary Research at *BusinessWeek* at chris_rogers@businessweek.com.

Introduction

Forward-thinking financial executives have struck gold and discovered new opportunities—right under their noses. They're transforming the finance function into a source of new savings, efficiencies, competitive advantages and increased shareholder value.

The shift comes at an opportune time. Fierce global competition means organizations are keen to squeeze expenses from cost centers and funnel the savings into new products, technologies and services across geographies. In addition, finance organizations want to free skilled knowledge workers from performing costly, time-consuming transaction-processing activities to focus on higher value-added work. As a result, savvy executives are rethinking, reengineering and redoing their financial processes—everything from accounts payable and receivable and other general-ledger functions to expense management, cash management, treasury, financial reporting and shared services. Essentially, they are automating the value chain of finance.

Their goal is straight-through processing—where standard transactions flow through various processes without human intervention. One company, truly grasping the potential of financial automation, named its streamlining effort "Project Fort Knox."

"These world-class performers have built more nimble sales, general and administrative (SG&A) operations that are better prepared to identify and take advantage of opportunities in the market and deal with unexpected challenges," says Richard T. Roth, chief research officer at Atlanta-based strategic advisory firm The Hackett Group.

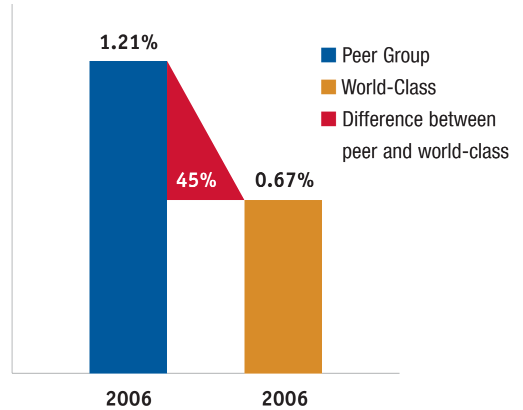
To differentiate these best-in-class companies from the industry norm or peer group, The Hackett Group developed a range of efficiency and effectiveness metrics, including those for finance and information technology. Over 14 years, Hackett has tracked 2,100 organizations and considers that world-class companies are those in the top performing quartile based on its metrics.

These world-class companies are already reaping the benefits of a more streamlined finance department. Finance costs as a percentage of total revenue are 45 percent lower for top performers than for the peer group (see chart 1, "The Difference Is Clear").

Chart 1

The Difference Is Clear

Total cost of finance as a percentage of revenue at world-class organizations is 45 percent lower than at typical companies.



Source: The Hackett Group

Companies can make their financial supply chains more competitive with the help of financial value chain (FVC) technology, which helps to electronically exchange payments, related documents and information between buyers and sellers, banks, carriers and other involved parties. This focus on the FVC comes after a decade of automation of organizations' physical supply chains that has reduced costs and increased customer satisfaction. After seeing the gains from automating physical supply chains, finance and supply chain executives are now beginning to apply the same ideas to the chain of invoices, payments and financing.

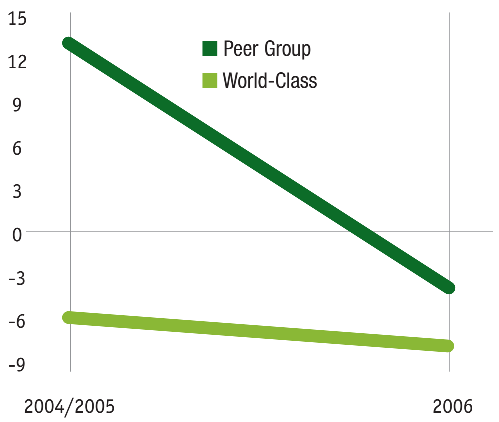
In a spring 2007 industry survey conducted by Boston-based research firm Aberdeen Group, respondents reported that implementing FVC automation has helped them gain significant competitive advantages in the market. "By using financial supply chain technology to improve the key financial metrics and ensure the transparency of business processes, companies can position themselves for innovative growth strategies and strengthen their business relationships," says Viktoriya Sadlovska, a research analyst at Aberdeen Group who authored the study. "Deploying improved SCF (supply chain finance) technology helps companies make their end-to-end supply chains more competitive."

Among the low-hanging FVC fruit harvested by companies is automation of accounts receivable and payable. Using electronic invoicing and payment processing (EIPP) instead of a paper-based system can cut the cost of payments processing by up to 91 percent, according to a March 2007 survey and report by Andrew Bartolini, a research director at Aberdeen Group.

Chart 2

Finance Costs Drop Across the Board

After compliance-related activities and other challenges forced finance administration costs at typical companies to increase 13 percent from 2004 to 2005, 2006 brought a four percent drop. Meanwhile, world-class organizations maintained their 14-year trend of lowering costs.



Source: The Hackett Group

Based on a survey of more than 300 companies, Aberdeen estimates the average cost of processing a paper invoice based on a purchase order is $20.41, while the average cost of processing an electronic invoice is $10.79; note that the best-in-class companies spent less than two dollars to process an invoice. Aberdeen estimates that almost 20 percent of large organizations already are adopting EIPP and that the transaction volumes are growing. Overall, the total number of business-to-business payments through the Automated Clearing House (ACH) grew to 2.3 billion in 2006, up 10.9 percent over 2005, according to the NACHA, the Electronic Payments Association.

Other factors affecting companies' streamlining efforts include Sarbanes-Oxley legislation, which can provide a needed push to automate financial systems under that and other compliance mandates. "Some [companies] don't even put through an ROI model to determine cost savings," says Jaime Ryan, a founder at Media, Penn.-based finance systems integrator e5 Solutions Group. "They do it under a Sarbanes project to become compliant, tighten up their controls and make the auditors happy."

When it comes to lowering the cost of the finance department's operations, world-class organizations know what they are doing. For the past 14 years, these firms have continually reduced expenses, dropping costs another eight percent in 2006, compared to only a three percent decrease by the peer group (see chart 2, "Finance Costs Drop Across the Board").

Streamlining Finance

The Hackett Group's Roth says finance department streamlining efforts have three plateaus, with only 10 percent of organizations today at the highest functionality. "Once finance gets their house in order—transaction processing, access to information and forward-looking decision support [systems]—then it plays a very important role in driving the ship," he says.

Both aligning strategies and improving transaction processing were critical for $80 billion Cardinal Health Inc. of Dublin, Ohio. Conceived as a classic holding company, Cardinal operated dozens of subsidiaries, each of which individually processed finance transactions; no common technology, practices or culture existed. "There was very little connection among those businesses other than that they were all consolidated under Cardinal Health," says company CFO Jeff Henderson.

With its broad range of healthcare-related products and services, Cardinal clearly needs to present one face to the customer. The company plans to complete implementation of a consistent, companywide finance process and systems platform in July 2007, including a shift from dozens of separate transaction-processing sites down to two shared-services centers in Dublin, Ohio, and Albuquerque, N.M. These two centers handle all the financial processes the subsidiaries had handled individually, including accounts receivable and payable processing. Organizational changes within Cardinal's finance team, including its transition to a financial shared-services model, have saved the company $10 million since 2005, savings that Cardinal is investing in technology and customer-friendly processes, Henderson says.

This "lift-and-shift" of processes and people, as Henderson calls the move to shared-services centers, has focused the spotlight on broken processes and needed changes, especially relating to customers. "You're going to identify broken processes and it's going to take some time to fix those. You have to accept that's part of the cost of doing a transition like this," he says. "But the move to a financial shared-services model is now enabling us to move quickly to develop world-class processes, particularly those that touch the customer." Cardinal's global restructuring efforts, which include the shift to a financial shared-services model, are on track, and the transition should be complete by the end of fiscal 2008.

Consistency in the Process

Another key differentiator between world-class and average financial transaction-processing performance is the amount of time it takes a large company to close its books. The best in class are 33 percent more likely to achieve this goal in three days or less (see chart 3, "Closing the Books").

General Mills Inc. is an excellent example of how automation can help achieve this goal. It takes the Minneapolis-based food producer 15 days to complete the monthly external consolidation reporting because of sparse or inconsistent data and too many people making too many entries.

By summer 2007, however, General Mills expects to cut its consolidation time in half—the first phase in the company's reporting makeover. "Ultimately, reducing risk and strengthening control were the real drivers to our process change," says Bill Koschak, vice president of financial reporting.

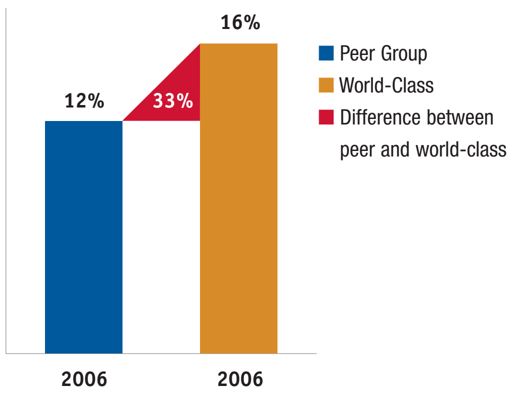
The new system will gather and consolidate a consistent level of data across every entity, so more data can be analyzed promptly. "Our objective is to more quickly get better information out to people on a consolidated basis and to the different legal entities," Koschak says.

Over time, that analysis also will become more sophisticated, leading to not just faster closes but greater business insights, such as which countries have submitted their balances along with annotations describing what changes were made to the data and by whom. "It was tough to do those kind of measurements," Koschak says. General Mills also wants to access more data from its multiple enterprise resource planning (ERP) systems around the world and eliminate the receipt of reporting spreadsheets from its worldwide subsidiaries.

Chart 3

Closing the Books

While 12 percent of all typical companies close their books in three days or less, 16 percent of world-class firms achieve this goal.



Source: The Hackett Group

But it's consistency in the process and in the data that's key to Koschak. "All of those steps you can take to drive the consistency in the process will help drive the efficiency," he says.

Global Insight Inc., an international economics research firm in Lexington, Mass., recognizes that consistency is a key component to efficiency. "If something is wrong, you have to roll up your sleeves and fix it," says CFO Paul Sandford. "You just can't accept that, 'it's always been done that way.'"

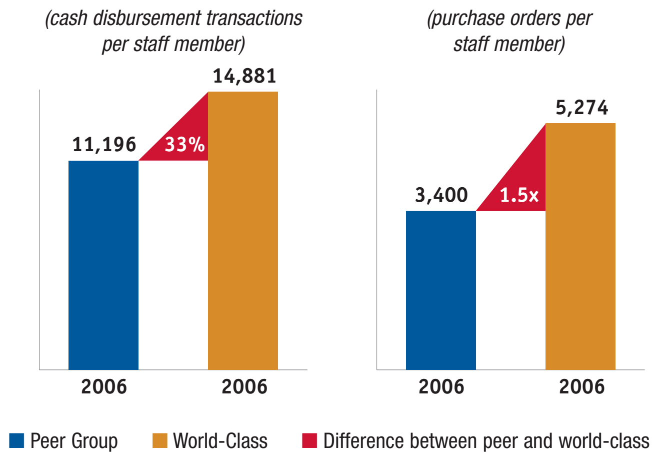
Standalone No More

General Mills' disparate systems situation is not unusual. In many organizations, finance is a collection of standalone processes and systems. Typically, employees are manually entering data into financial systems of record. Today's technology eliminates manual consolidation of data from standalone systems, says e5 Solutions Group's Ryan. "This automation has a profound impact on the resources needed to run the business," he says, pointing to formerly manual tasks that are now monitored by just one person. "There's a definite overall savings for finance."

Chart 4

More Nimble

Staff members at world-class finance organizations are significantly more productive than their counterparts at typical companies.



Source: The Hackett Group

Brown Forman Corp. understands such savings. Known for Jack Daniels whiskey and Korbel Champagnes, the Louisville, Ky.-based company just bought top-shelf Mexican tequila maker Casa Herradura. Completing the acquisition—along with several others of late—has been smooth because Brown Forman has one companywide financial system that most recently added treasury/cash management capabilities.

"The technology enables us to quickly change organizational structures with the acquisitions, getting them up and running quickly and replicating our domestic capability worldwide," says Robert Waddell, Brown Forman's global treasury manager.

"Everything is driven by economy of scale, the same as the economics of an outsourcing model," says Neil McEwen, an Arlington, Va.-based managing consultant at PA Consulting Group of London. "The more volume you've got going through your unit, then the lower the unit cost."

A good example of the benefits of economies of scale and financial automation in terms of staff efficiency can be seen in processing cash disbursement transactions and purchase orders. According to The Hackett Group, world-class companies are significantly more productive than industry-standard firms (see chart 4, "More Nimble").

Managing Assets, Not Transactions

Another key area of financial automation is cash management. While large companies have been automating this function for decades, increasing globalization has led to a proliferation of accounts and institutional linkages that decrease efficiency and increase costs. An excellent example of how to resolve this situation is Microsoft Corp.

The Redmond, Wash.-based company's ambitious cash management effort began in 2004. Having installed a new cash management application as part of its revamped financial resource planning system, the cash-rich software maker realized that via customized links it could get individualized point-to-point connectivity to the three largest of its 115 banking partners worldwide. Suddenly, Microsoft's Treasury group had a near real-time view into the daily balances and transaction activity of about 300 of its 1,200 bank accounts from around the world. Then that visibility raised demand for even more data.

Leveraging its own expertise with the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network for its financial services customers, Microsoft simply tapped into SWIFTNet, the industry cooperative's security-enhanced messaging platform. By leveraging the same network and processes banks use, the company is able to connect to additional banking partners and gain visibility into more of its accounts.

"We developed a vision, ultimately called 'Project Fort Knox,' for Microsoft to become a direct participant on SWIFT and make that the centralized portal for communicating with all of our banking partners around the world," says Ed Barrie, group manager in Microsoft's Treasury group. Project Fort Knox also lets Microsoft leverage "the power of SWIFT's standardized message formats." The company wasn't trying to circumvent the banks, Barrie quickly adds, but to find a way to communicate directly with all its banks in a scalable, secure, reliable and standardized manner.

Late in 2006, via SWIFT, Microsoft began receiving daily statements from eight banking partners covering an additional 200-plus accounts. By the end of 2007, the company expects to be communicating with 20-plus banking partners. Not only has the SWIFT approach saved up to $150,000 on the cost of each custom connection to a bank, but the new visibility means Microsoft can minimize cash balances that are outside of Microsoft's Treasury group's control and maximize the return on that cash until it's needed for operational expenses.

Microsoft now watches for accounts with balances that are either too high or overdrawn. Managers also can see when, for instance, large customer payments are cleared and, within minutes, adjust that customer's credit limit accordingly. Equally important, considering compliance and Sarbanes-Oxley requirements, the company has reduced the need for expensive quarterly checks of internal controls such as number of users, access levels and so on.

The other simplification: Feeding bank balances directly into the corporate financial system eliminated a significant chunk of manual statement reconciliations. "At one point we had people across the company having to access 1,200 paper statements via faxes, online tools or banking applications … and some of our subsidiaries did it daily or weekly," Barrie says. "Now we have the ability to take in a statement, interpret the transactions and post them automatically to the appropriate cash-clearing ledger accounts on a daily basis."

These streamlining efforts mean users are moving from managing transactions to managing assets. Equally profound: With all statement reporting directly tied into the cash management application, Microsoft now has one source of "truth" for all bank data.

> **"We're always going to find better, different ways to modify our business processes."**
>
> *—Ed Barrie, Microsoft's Treasury group*

Naturally, Microsoft is not done. Barrie's team is now at work on intraday statements from those accounts that have significant daily transaction volume as well as on additional uses of SWIFTNet and other banking data. "There's never going to be an endpoint," Barrie says. "We're always going to find better, different ways to modify our business processes."

Conclusion and Recommendations

Welcome to the new world of finance. As executives tune into their own financial operations, their organizations are experiencing greater efficiencies, reduced risk, new transaction-processing capabilities, smarter data delivery to the right workers and a generally stronger performance. Executives are finding that reducing manual processing and finance costs means they can now focus on supporting the rest of the organization, developing creative solutions to corporate challenges—along with new products and competitive advantages.

This more efficient and effective financial performance means a stronger company overall, one in which finance is more likely to be viewed as a business partner by executives in other areas of the business—along with the CEO.

SPONSOR'S STATEMENT

Financial Management Systems —

SAP partnered with BusinessWeek Research Services on this study as part of our ongoing effort to better serve our customers as well as to understand how companies are progressing on their financial transformation journey.

We had two major goals in sponsoring this research: First, gain insight into the challenges and successes that finance departments are experiencing as they strive to make their operations more efficient and play a more strategic role in the business. Second, deepen the knowledge we have gained through both our own research and our 35 years of experience providing financial management solutions to the world's leading companies.

This study confirms what we have learned through that experience as well as through the benchmarking research conducted by SAP's Value Engineering group: Investments in IT solutions that automate and standardize critical finance processes not only help decrease costs and cycle times but pay additional dividends in the form of strengthened compliance and improved financial returns. Moreover, these benefits are being realized up and down the financial value chain (FVC), beyond core accounting and reporting, to encompass broader financial management processes such payables processing and cash management. From closing the books to straight-through payment processing, technology solutions are helping companies harmonize financial data across systems and organizational units, achieve greater process consistency, minimize manual processing and enable their finance professionals to apply their expertise to higher value-added work.

The study also reports that companies are realizing significant cost savings by consolidating multiple financial management systems and aligning fragmented transaction-processing activities around shared-services centers. According to Gartner Inc., firms that standardize on a single ERP instance and reengineer their processes around a shared-services environment can achieve cost savings of 25 percent to 35 percent. Similar results were reported in a benchmarking study conducted by the SAP Value Engineering group and the Americas SAP User's Group (ASUG). The ASUG study showed that companies utilizing shared-service deployments had costs that were three times lower than their peers.

In addition, companies are gaining efficiencies by streamlining the period-end financial close. Closing the books can be very challenging and time-consuming, especially when data from multiple systems must be consolidated and tasks coordinated across operating units located in different locations and time zones. The time and effort of closing the books can be greatly reduced through technology investments that help standardize, automate and coordinate the companywide closing process.

Leading companies are benefiting from technology solutions that enable more consistent processes, better task coordination, collaboration and workflow required for closing the books. Graphical tools also provide the

Enabling Financial Transformation

ability to centrally manage the closing process and enhance cross-unit coordination by providing greater visibility and a single point of control. According to the SAP/ASUG study, companies utilizing best practices were able to significantly reduce closing cycle times and accomplish the work with fewer employees than their peers. Also, technology solutions help reduce the time and effort required to audit and monitor compliance through the ability to track adjustments and approvals and to provide more transparent audit trails.

Optimizing the financial value chain involves automating end-to-end processes like credit-to-cash, supplier sourcing-to-pay as well as the cash management function. Progressive companies are discovering cost savings by taking advantage of Internet-based payment networks to streamline invoicing and payment processes that involve their customers, suppliers and financial intermediaries. Gartner reports that companies that leverage FVC applications will reduce financial management process costs by at least 10 percent.

Utilizing standards such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT) for secure and reliable connectivity with over 7,000 banks worldwide, companies can gain greater efficiencies in managing their multiple bank relationships. In addition to real-time visibility into bank balances and more effective cash management, companies utilizing the SWIFT network can process payments quicker and cheaper as well as completely eliminate costly point-to-point integrations with individual banks.

One SAP customer, a $6 billion firm in the oil and gas industry, has completely automated its accounts payable function, enabling it to process thousands of payments every month with just two full-time employees. The company also has automated its cash management function and performs reconciliations across its numerous banking relationships in just a few hours every day. This has enabled the company to reduce its bank fees, lower integration costs and generate greater returns on its cash positions.

SAP is the world's leading provider of business software. For more than 35 years, we have provided companies with robust financial management solutions for automating core accounting and reporting functions and optimizing their financial value chains. More than 30,000 companies worldwide, including many of the companies mentioned in this report, depend on SAP financial management solutions. We are proud to sponsor this research and hope readers gain key insights into how fellow finance professionals in leading companies are transforming their finance organizations. For more information on how SAP financial management solutions enable you to streamline your finance processes, ensure compliance and optimize your financial value chain, please visit our Web site at the link below. You'll discover why the best-run businesses run SAP.

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