



BUILDING A BEST-RUN FINANCE ORGANIZATION

FINANCE AS THE NEW STRATEGIC BUSINESS PARTNER



There is a company executive with a growing influence in today's boardroom – the chief financial officer. And the role of the finance organizations that these executives lead is expanding as well.

From increasingly stringent compliance regulations to the expanding adoption of international financial reporting standards, today's focus is on companies' financial accountability and internal controls. Executives in all industries recognize that individual business activities do not occur in a vacuum. All functions – sales, marketing, manufacturing, service, even human resources – affect not only the bottom line but also a company's financial integrity. Increasingly, prudent companies are drawing their finance organizations into greater collaboration with the operational aspects of the enterprise. In addition, financial officers are taking on a more prominent role in defining company strategy.

This *SAP Executive Insight* examines the changing role of the finance organization in today's business environment. Further, by answering the following questions, it describes how companies can develop best-run finance organizations:

- What operating characteristics help companies develop best-run finance organizations?
- How are best-run finance organizations measured?
- How does the focus of an organization change as best-run finance methods are applied?

EXECUTIVE AGENDA

AT A GLANCE

Recognizing Best-Run Finance

Leading companies that are successful in incorporating finance as a core line of business typically display some common characteristics. These companies are:

- **Agile.** As the economic environment continues to change at an ever-increasing pace, there is no time to implement change in small, bite-size chunks. Centralizing processes – such as shared services for financial processes, risk analysis, and compliance – can provide consistency that enables a company to implement changes once, quickly reaching the entire enterprise.
- **Connected.** No executive – or business function – is an island. Finance, especially, has dependencies on activities in each line of business across the entire organization. The integration of a company's operations with its financial function is a key success factor, fostering a common view of the current state and future direction of an organization.
- **Metric driven.** Leading companies measure their successes – such as the efficiency of their transactional processes, the performance of core business operations, and the effectiveness and strategic analysis that finance contributes to the overall organization. Particularly for an evolving business, metrics can also provide a clearer picture of a company's starting point, its transformation plan, and the results of its execution.

Investing in Financial Processes

Supporting these success factors are a company's internal processes. Top-performing companies have financial processes that are:

- **Automated.** When a transactional process is automated, the result is fewer errors and less effort. With process reliability, financial professionals can shift their focus from repetitive and manual transactional tasks to more strategic business analysis.
- **Integrated.** Financial processes should be plugged into business processes across the enterprise. Organizations need to pull down the silos and ensure that all relevant financial and operational functions are considered when making critical business decisions.
- **Consolidated.** It is inefficient to implement process or regulatory changes that affect an entire organization on a system-by-system or subdivision-by-subdivision basis. A common technical platform can eliminate this potentially costly requirement.

Striking a Balance

The best-run finance organization will continue to address near-term priorities while helping to chart long-term business direction. As a result, the mission of today's finance organization is truly both tactical and strategic:

- **Tactical.** Standard financial operations, such as month-end close, remain critical to a company's success. Processing financial transactions efficiently and in strict legal compliance solidifies a company's standing in the financial, analyst, and shareholder communities.
- **Strategic.** At a time when business models are changing rapidly, finance plays an increasingly important role in charting the course of an evolving company. Finance must drive strategy and innovation – enabling the growth of an organization, facilitating the changes that come with that growth, and managing risk.

SAP and the Americas' SAP Users' Group (ASUG) have conducted benchmarking studies that provide important insight in how leading companies achieve the desired balance in their financial organizations. Further, by analyzing the performance of businesses across diverse industries, these studies also offer CFOs the metrics needed to assess their own companies' success.

AGILE

OPTIMIZING FINANCE TO MAXIMIZE EFFICIENCY

Streamlining Processes with Automation and Shared Services

Like best-run operations everywhere, more and more finance organizations are looking for ways to streamline their processes. Automation is an obvious strategy. By automating transactional processes, top finance performers are lowering the cost of financial activities, reducing errors, and increasing turn-around speeds. In fact, benchmarking studies reveal that top quartile performers have finance costs that average just 0.4% of company revenue, compared to greater than 1.2% for the bottom quartile. Automated processes can also ensure that an organization's core data is reliable and readily available.

But without a systematic method to ensure compliance with these processes, companies can still experience costly localizations across business units and geographies. A growing trend in best-run finance is to drive efficiency through shared services. A finance organization with a single business process platform can provide consistency across different regions and divisions – and still address the requirements of local regulations. The advantages of this approach include the sharing of financial resources, standardization of financial processes across business units and geographies, quicker and more accurate financial consolidation, and increased speed in complying with legal and regulatory changes.

Benchmarking again shows that companies with mature shared services organizations achieve cost savings and increase organizational effectiveness (see Figure 1).

Responding Efficiently to Risk and Compliance Issues

In addition to controlling financial exposure, companies are expected to maintain consistent operational and audit processes. To ensure compliance with legal regulations, companies must implement checks and controls – based on the context of individual business processes – that define who can access and change information. ASUG/SAP studies indicate that targeted governance, risk, and compliance initiatives can help companies measurably improve their ability to detect and prevent fraud while reducing the resources spent on compliance.

Further, as financial and operational rules change, new processes must be implemented throughout an organization as soon as new rules take effect. A centralized model to control risk and compliance facilitates the ability of an organization to turn on a dime in a changing global economy.

Valero Energy Corporation

Industry: Oil and gas – refining

Summary

A Fortune 100 company with refineries in the United States, Canada, and Aruba and 5,800 retail and wholesale outlets, Valero Energy Corporation is the largest independent refining and marketing company in North America. By implementing the SAP® BusinessObjects™ Access Control application, Valero enabled continuous access-control compliance and reduced access control-related audit observations by 70% per year – until they reached zero.

Results with SAP® Software

- Established a uniform governance, risk, and compliance framework for access-control compliance
- Significantly reduced information systems compliance-activity time spent on access-control compliance

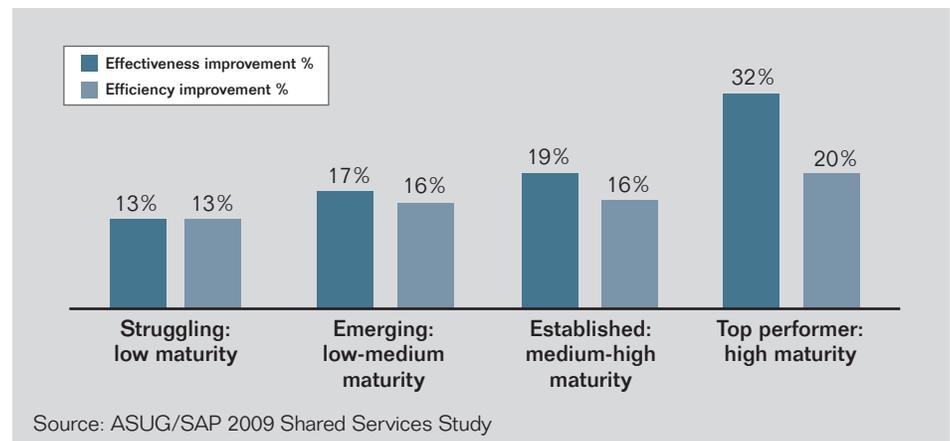


Figure 1: Shared Services Adoption Driving Improvements in Efficiency and Effectiveness

CONNECTED

INTEGRATING FINANCE TO ENSURE EFFECTIVENESS

Embedding Finance in Closed-Loop Processes

Finance is no longer a back-office function. Instead, today's best-run finance organizations reinvest the time and resources saved by running an efficient organization to provide proactive insights that enable other lines of business to make informed decisions supporting the best interests of the entire company. Holistic processes that encompass every part of the business – and that facilitate communication between departments – are critical to ensuring that finance is integrated with these operational decisions.

Finance, marketing, sales, and manufacturing must all work together, for example, to effectively determine appropriate spend based on expected returns and, ultimately, the bottom line. With closed-loop processes in place, a finance department can forecast potential revenue, run what-if analyses, and develop contingency plans to manage costs. If marketing targets more sales than manufacturing can supply, managers can adjust demand plans or secure additional manufacturing resources. If manufacturing costs increase, finance can flag off-target trends and initiate early corrective action.

Enabling Integrated Information

In addition, a company cannot effectively pursue a strategic direction unless there is consistent, accurate, and real-time visibility across the enterprise – especially when it comes to its financial information. A business, for instance, cannot react proactively to

demand forecast adjustments if this information takes several days to reach the finance department. And in highly siloed environments, there is the risk that critical information will never reach other impacted organizations such as manufacturing and sales.

Finance needs information that is timely and accurate if it is to fully assess the operational situation of a company. Manual processes open the door to error when transferring data or rekeying entries. Automation can ensure a free flow of accurate information between departments, lines of business, and geographies – optimizing the entire business and ensuring consistency.

Acting as Strategic Advisor

A truly connected finance organization will identify opportunities that take its company to the next level. With its ability to analyze operational performance across organizations, a finance organization is in the unique position to identify current trends, forecast future results, and analyze new market opportunities.

Studies indicate that as finance organizations evolve, a greater percentage of their time is spent on business analysis (see Figure 2). Accompanying this shift are increases in operating margins as much as 36%. Top performers increase efficiency with lower transactional costs, while maximizing effectiveness with greater emphasis on strategic decision support.

Stubb's Legendary Kitchen

Industry: Consumer products – food

Summary

Stubb's Legendary Kitchen was nearing bankruptcy because its financial planning and forecasting tools were so poor. Using the SAP® ERP application, the firm has greatly improved the availability and accuracy of information for decision making as well as business process efficiency, inventory levels, and much more – and has returned to robust financial health.

Results with SAP® Software

- Reduced forecasting time and effort 50%–60%, with 15%–20% increased accuracy
- Inventory as a percent of revenue reduced 10%–30%

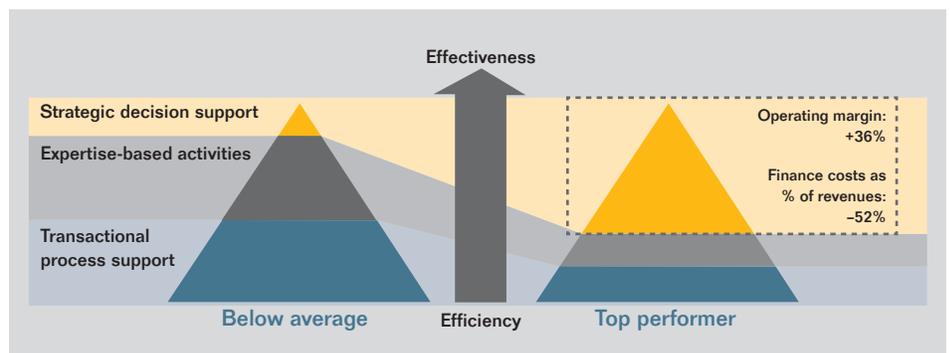


Figure 2: The Benefit of the Right Balance

METRIC DRIVEN

PUTTING THE RIGHT MEASURES IN PLACE

Maintaining Financial Excellence

The measurements that an organization puts in place – and how these performance indicators are prioritized – often determine which companies are business leaders. Metrics that measure the efficiency of finance operations typically include cost per transaction, time to close books, and audit times (see Figure 3). Such measurements, however, must be evaluated in concert. For example, not just cost and speed but also accuracy are critical in time-to-close processes. Rapid, reliable financial results enable effective and timely business decisions for all business units of a company.

Financial organizations will continue to process the important daily transactions that invoice customers, pay vendors, and capture operational costs. Indeed, an ongoing mandate of finance is to generate the financial statements expected by the market and shareholders.

Driving Operational Excellence

Beyond the necessary financial statements, the best-run finance organizations also play an integral part in operations planning. By performing operational analysis, finance can support the decisions of departments across the enterprise: sales, manufacturing, and services. In fact, it is often

the finance organization that brings company-wide forecasts together in a single comprehensive plan – providing what-if analysis, assessing risk, and identifying inconsistencies among departments.

Best-run finance goes one step further and compares company performance with external economic data. This comparison can reveal how the business stacks up to the general market, its industry, and its geography. By providing such insight, a finance organization can drive growth strategies, such as recommending build or buy decisions. At the same time, these strategies can mitigate the risks presented by business realities such as economic downturns and emerging global regulations.

Zions Bancorporation

Industry: Banking

Summary

Across the western United States, Zions Bancorporation is a leading lender to small businesses, with banking offices stretching from Texas to Washington. To increase profitability and operational control, this longtime user of SAP® BusinessObjects™ software relies on SAP BusinessObjects Planning and Consolidation and SAP BusinessObjects Profitability and Cost Management applications to enable closed-loop enterprise performance management.

Results with SAP® Software

- Improved pricing competitiveness of existing and new product offerings
- Greater ability to calculate profitability of customers and offerings at the account level

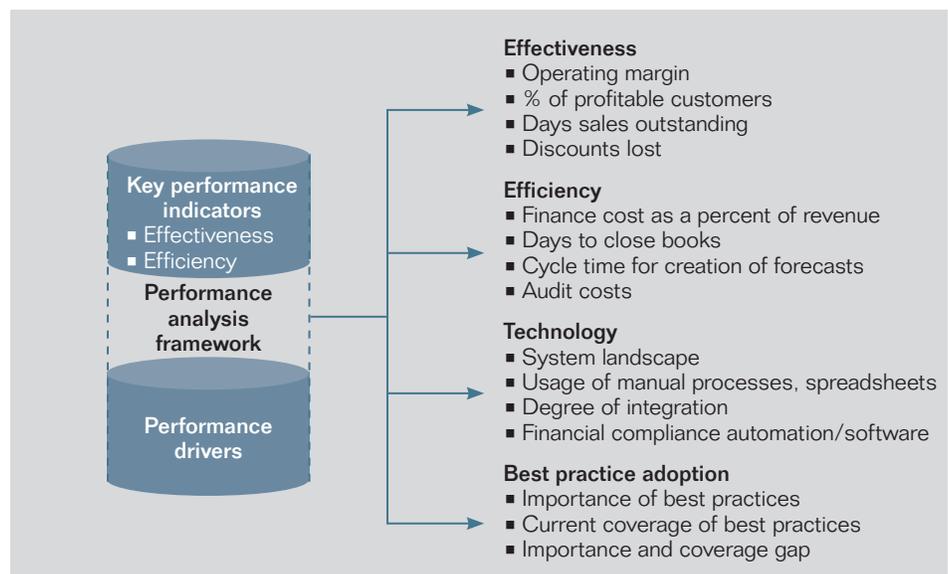


Figure 3: A Focus on Metrics – The Performance Analysis Framework

THE ROAD AHEAD

BECOMING A BEST-RUN FINANCE ORGANIZATION

There is little doubt that today's CFOs are changing the focus of their organizations and, as a result, influence business operations far beyond the traditional boundaries of finance.

SAP industry experts and the value engineering (VE) team can help your company build a best-run finance organization. These experts provide support throughout the value lifecycle, from developing business cases to sharing knowledge on how to maximize the value of SAP solutions to support end-to-end financial processes:

- **SAP ERP Financials:** A solution that, as part of the SAP Business Suite applications, provides complete, integrated financial management to effectively fulfill the most complex accounting, financial supply chain, treasury, and managerial accounting functions; supports a broad range of industries and multiple currencies and languages with over 45 country-specific versions; and offers tight integration with operational processes
- **Enterprise performance management:** Solutions for performance management that help companies capitalize on the value of their corporate data, enabling organizations to become more agile and competitive to close the gap between strategy and operational execution by cascading corporate goals down into department-relevant metrics; ensuring accountability; enabling intuitive modeling, monitoring, and analysis; and streamlining execution of strategy-guided plans

- **Governance, risk, and compliance:** Solutions that proactively balance risk and opportunity across business processes, to allow corporations to respond faster to changing business conditions using a preventive, real-time approach that guides people, standardizes processes, and integrates technology to embed governance, risk, and compliance at every organizational level

The VE team consists of more than 175 professionals providing in-depth industry and business process expertise in strategy, IT planning, global deployments, and benchmarking. For more information, contact value.engineering@sap.com.

The ASUG/SAP Benchmarking and best practices program can help organizations assess strengths, identify potential areas for improvement, and recognize best practices and IT strategies that enable companies to excel. Benchmarking and best practice reports are available for financials, financial shared services, cash to cash, enterprise performance management, and financial compliance. Additional reports address other operational areas, such as human capital management, supply chain and manufacturing, and business intelligence. For more information about the ASUG/SAP Benchmarking program, visit www.asug.com/benchmarking or contact benchmarking@asug.com.

About the Author

Birgit Starmanns is a senior director with SAP, focusing on closed-loop financial processes, creating value-oriented thought leadership content, and working with strategic customers and financial excellence communities. Previously, Starmanns was a vice president in SAP's CRM solution management organization for partner channel management and a director for e-commerce. Prior to joining SAP, she was a principal in management consulting organizations, with a focus on financial and management accounting. Starmanns holds an MBA and a BA from the College of William and Mary.

Further Reading

To learn more, please visit www.sap.com/usa or contact your SAP representative about the following:

- *ASUG/SAP Benchmarking Reports*
- *Zappos.com* – SAP Business Transformation Study
- *Achmea* – SAP Business Transformation Study
- *Fujitsu Siemens Computers* – SAP Customer Success Story
- *United Pipe and Supply* – SAP Customer Success Story
- *Allergan* – SAP Customer Success Profile
- *UHY Advisors* – SAP Business Transformation Study

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