

Developing Commercial Capability And Insight In the Finance Function

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Knowledge ▪ Experience ▪ Insight

Session outline

1. Context: changing focus
2. Understanding commercial capability
3. Assessing capability and developing strategies
4. Developing the right skills
5. Being commercial
6. Concluding comments

A thought to consider

“It’s not the strongest or the most intelligent that survive but the most adaptable”

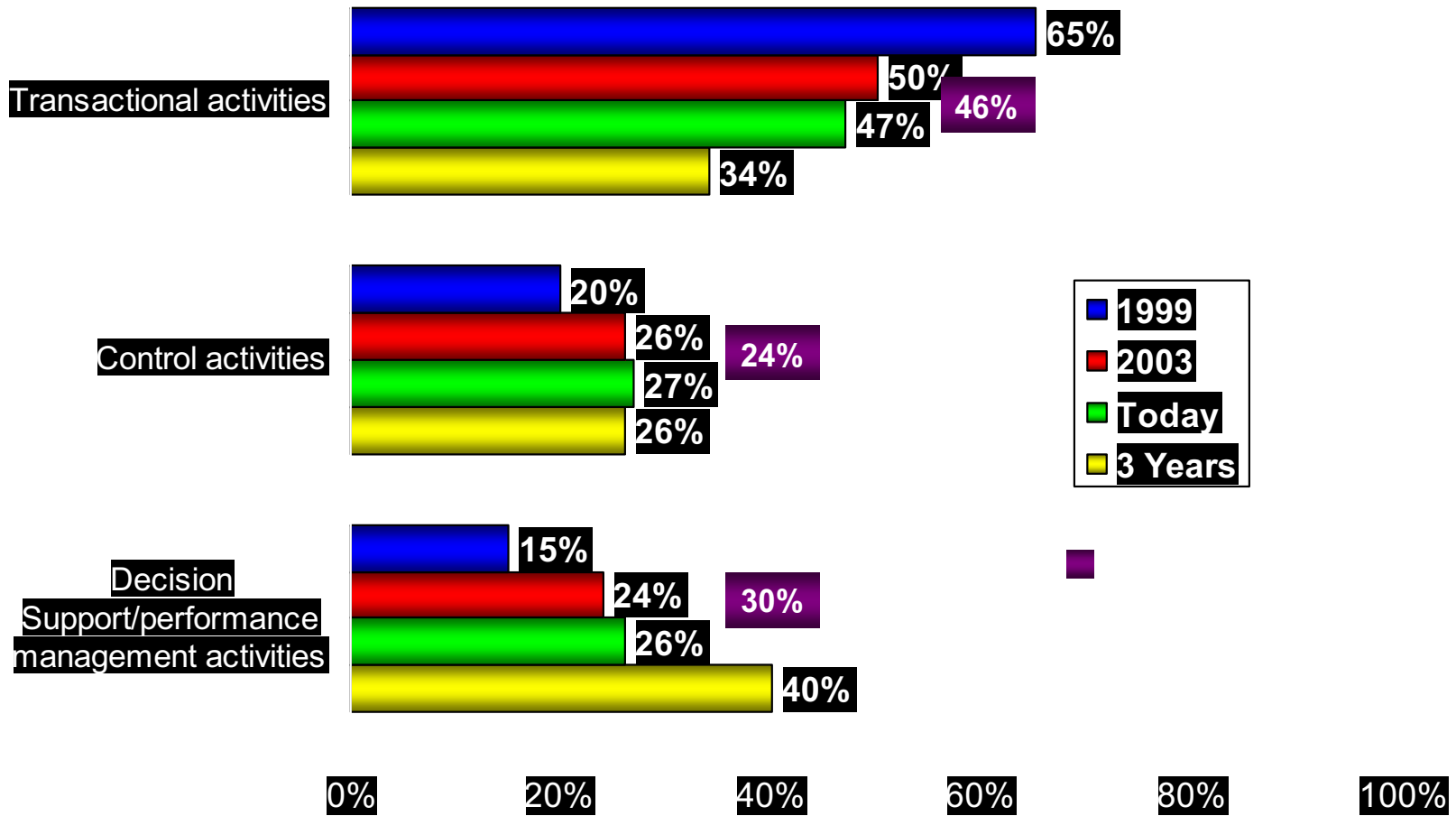
- Charles Darwin

Are you proactive?

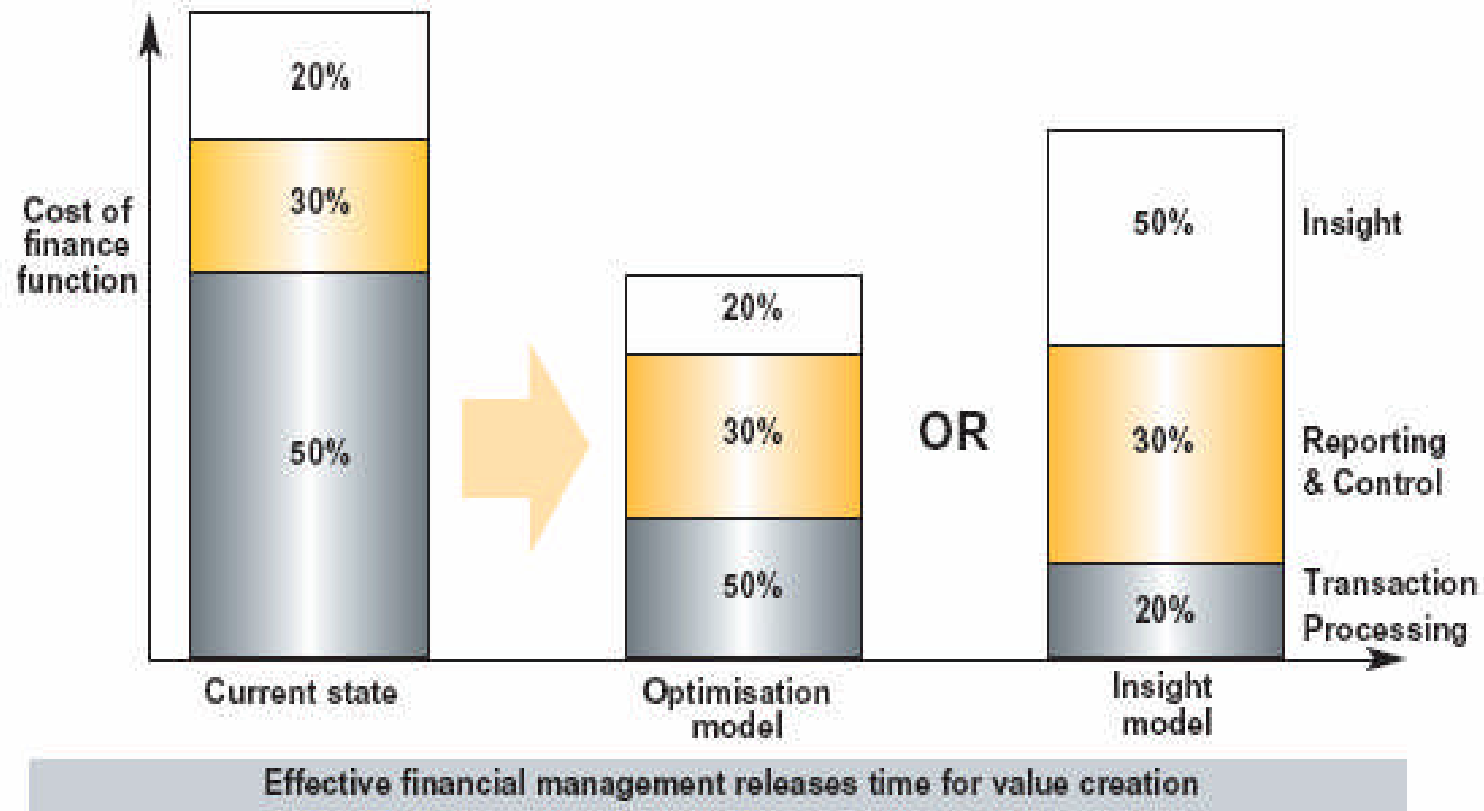
To what extent do you continually challenge the business on decisions that have a direct \$ impact?

Context: Changing Focus

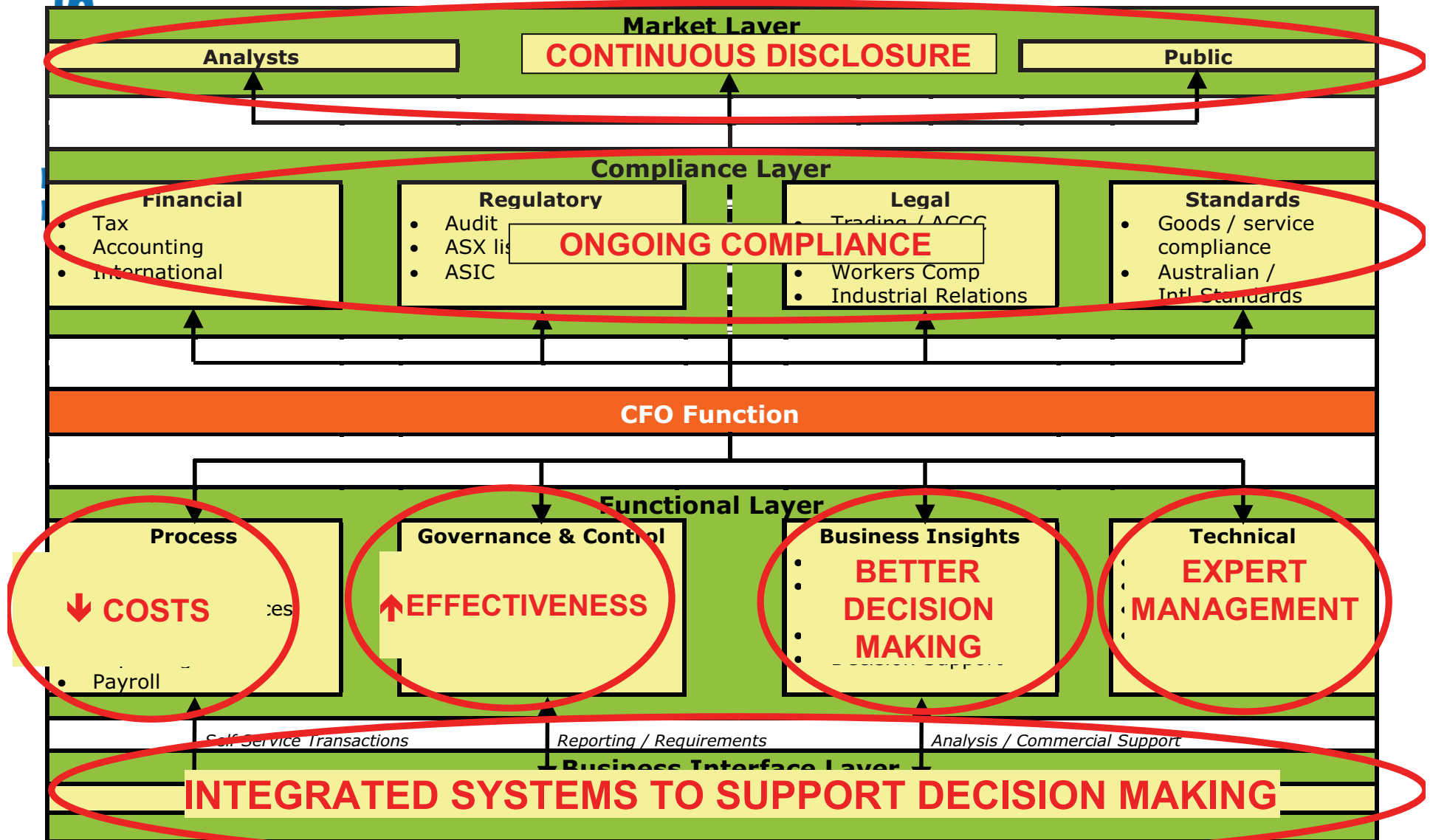
Changing focus



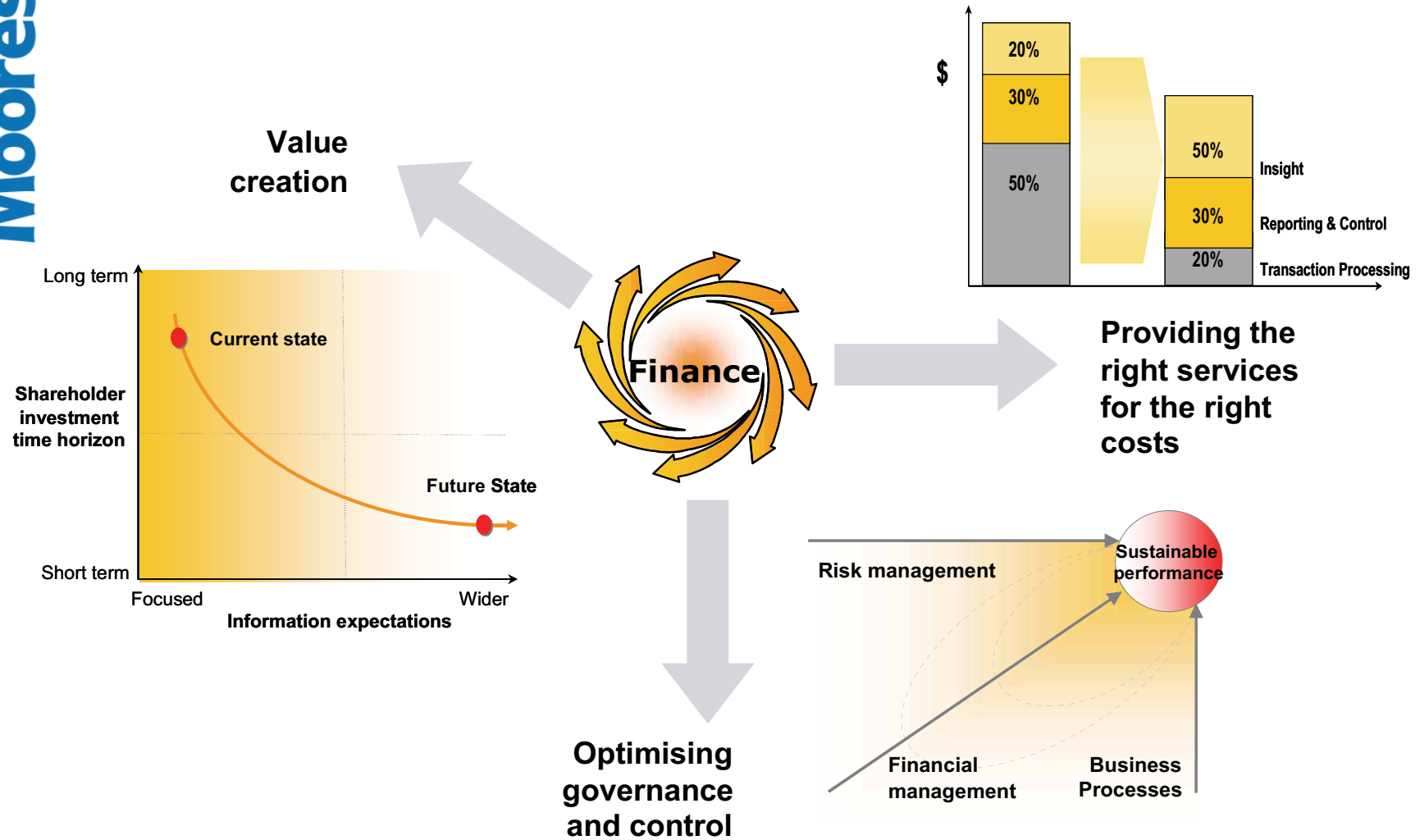
Finance's direction



Future focus



Finance's primary objectives



Understanding Commercial Capability

What do we mean

Insight:

- Clear or deep perception of a situation; clear understanding of a complex situation

Acumen:

- The ability to judge well; keen discernment; insight

Commercial:

- Connected with, or engaged in commerce

Finance does too much work

- Too many reconciliations and month-end routines
- Too many measures
- Too many irrelevant reports
- Too many detailed budgets, targets and variance reports
- Too many scorecards
- Too many spreadsheets to connect disparate IT systems
- Too many projects
- Too many non-value adding activities

AND IT IS ALL LOW VALUE WORK !!!

Business partnering

- Is rated as the finance function's most important aspiration
 - But **only a few have successfully** refined finance's role to meet the decision support of business
- Most **finance functions are still dominated** by;
 - Transaction processing
 - Stewardship
 - Control
- **Finance is essentially a service provider** therefore its performance should be **measured by the value it delivers to its customers**. Needs will be defined by:
 - What finance can offer
 - How it will be delivered

Finance business partnering model

Service Targets	Key Business Interfaces	Commercial Financial Offering	Tools & Techniques
Strategy management & corporate strategy	Executive	Strategic insight & monitoring	Setting direction
R&D, product development	Management	Framing & challenging decisions	Investment appraisal
Brand/marketing effectiveness	Front line	Information management & reporting	Performance measurement
HRM impact on performance	External	Planning, forecasting & resource allocation	Information & decision making
Operations		Performance management services	Costing
Supply Chain			Continuous improvement

Source: S. Gould & M.Fahy (2005)

Customer Analysis

Before:

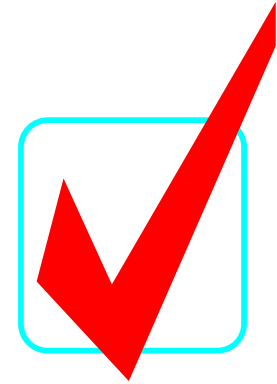
- Sales - \$34 million p.a.
- Average no. of customers - 500-600 per month
- Average order size:
 - 90% customers 250-1,000 kgs
 - 10% customers >1,000 kgs

After:

- Sales - \$18 million p.a.
- Average no. of customers - 20-40 per month
- Average order size - 100% customers >1,000 kgs

Benefits

- Substantial reduction in overhead costs
- Simplification of business reporting
- Reduction in inventories
- Reduced risk to Bad Debts
- Increased Cash Flow
- Improved operational efficiencies
 - reduction in operating costs
- Focused business orientation
 - established strategic relationship with customers
- Reduction in Capital Expenditure



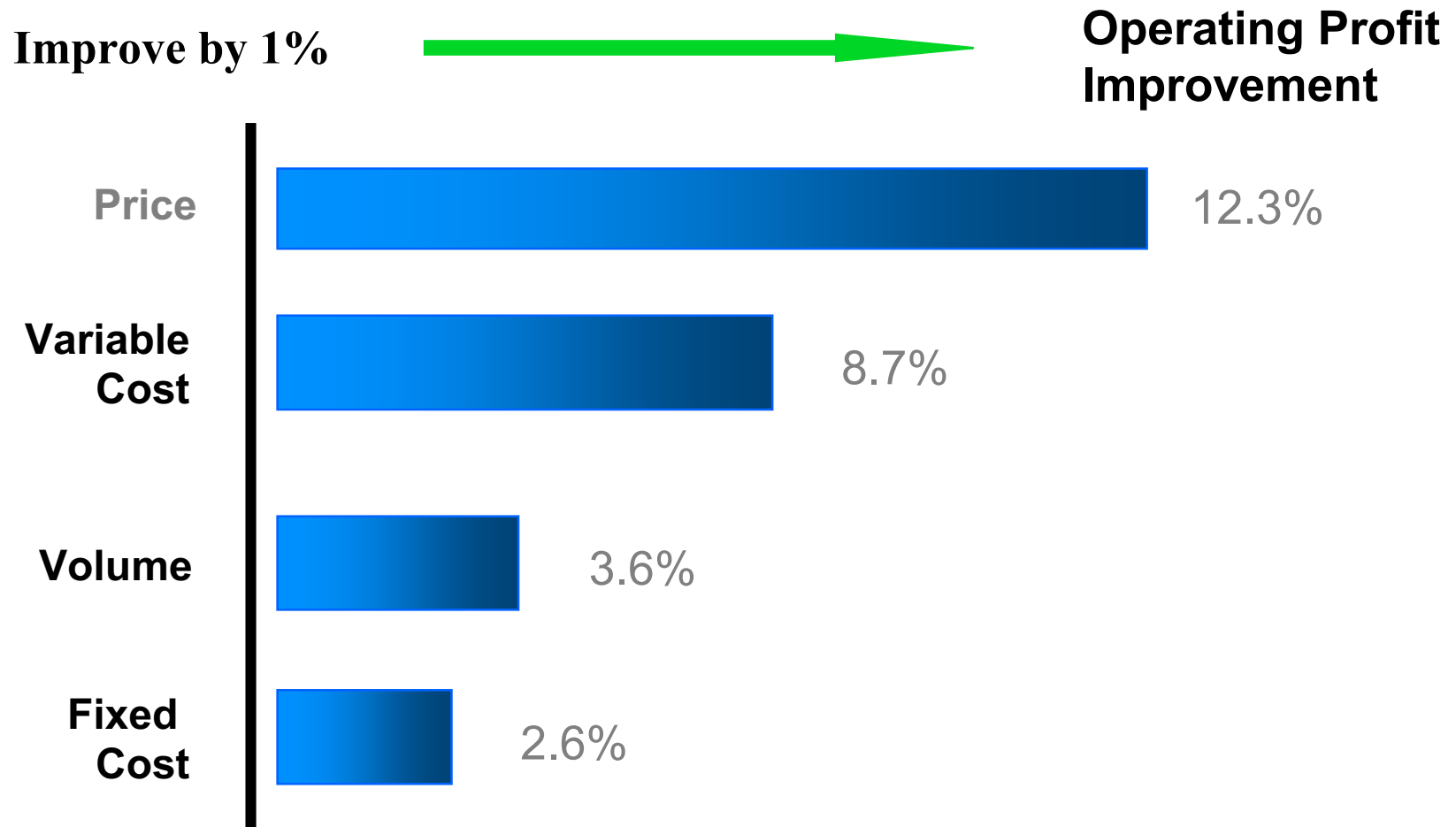
Assessing Capability and Developing Strategies

Something to consider

“ An ideal finance function spends very little time on reconciliations and a minimal amount of time reporting on what has happened. Instead, a great organisation spends the majority of its time trying to anticipate what’s going to happen in the future, making sure the company's resources are allocated to the most important opportunities that it has, and to ensuring that the company operates with tight controls and great processes”

- Gary Crittenden, CFO, American Express

Where is your focus?



Source: L.E.K.

- How does your Finance organisation align its strategy to the overall enterprise strategy?
- How does Finance help to document, test, communicate and refine assumptions on which growth strategies are made?
- How often does your Finance organisation update its strategy to reflect changes in business goals? What triggers these updates?
- How does Finance maintain a sound understanding of cost and profitability – by customer, by product, by channel, by contract?
- How often are costing and profitability methods updated to reflect changes in business goals (e.g., new channels, new products/services, etc.) and external events (e.g., commodity hedging, new competitors, etc.)?

Performance

- How integrated and streamlined are the planning, budgeting, forecasting and decision-making processes?
- How extensively is external data used in forecasting/reporting processes?
- How do you ascertain that performance management metrics are fully cascaded through the business? Are metrics role-specific? Are they aligned to business strategy and key business drivers?
- To what degree does your organisation utilise exception-based reporting and analytics?
- Does your organisation have an effective understating of the quantifiable relationships between business drivers and performance outcomes? Can it predict the impact changes in these drivers will have on performance outcomes? Is there a process for testing, refining and communicating this understanding?

- How often is your Finance organisation providing the appropriate risk mitigation strategies? Is your organisation formally supporting the development of these strategies or reacting to events as they occur?
- How does your Finance organisation currently incorporate risk consideration and guidelines when analysing potential opportunities and failures?
- Within your organisation, how prevalent are risk-based metrics and dashboards with embedded automated alerts and analytical/modelling tools?
- To what extent has your organisation automated processes and control points?

Opportunity example

Background

- Transport, logistics and engineering organisation
- Most reporting done through GL (approx 200,000 a/cs)
- Current reporting can identify and report of a specific cost item

What is the value to the business?

What if...

Key questions

- Who are our customers?
- Do they know what their key decisions requirements are?
- What services do they need /want from finance?
- What delivery channels should be used?
- What are the risks associated with the different delivery channels?
- What are the infrastructure (processes, systems and people) needs?
- What is your operating strategy?
 - Pricing
 - Service priority

Leading practice – budget reporting

Performance measures

- Bias towards inclusion of non-financial leading measures, rather than just the financial outcomes
- Consistency of performance drivers and KPIs between budgets and monthly business reporting processes

Insightful commentary

- Key assumptions rather than explanation of the numbers
- Key activities required to meet targets, and how these will be monitored
- Review sensitivities, and opportunities to further enhance performance

Clearly structured document

- Emphasis on visual presentation (more with less)
- Minimise duplication
- Tailor to user needs (divisional vs. SBU)
- Detailed financial tables in appendices

Strategies to consider - 1

- Understand the business...beyond just finance
 - Take a commercial view of your business: technical focus with commercial pragmatism
- Communicate effectively
 - Identify and understand needs
 - Do not assume knowledge or level of understanding
- Actively immerse finance in the decision making process – do not just process and produce outputs
- Look at how you can co-operatively assist other business areas to improve their effectiveness
- Educate staff on financial implications of decisions

Strategies to consider - 2

- Improve your reporting to incorporate more and insightful analysis
- Develop broader commercial skills (e.g. Negotiation, communication etc.) within finance
- Rotate staff in roles/functions – both in and out of finance
- Assign finance staff to assist areas of the business or if possible integrate them into functional areas

Become a 'true' business partner

Developing The Skills

People issues

Passion for the business and the problems it faces will remain a key criteria in selecting staff for partnering roles

Firms are largely agnostic on the specific qualification which their staff hold and are more concerned with experience, exposure and capability

Skills required

- Strong financial skills
 - Understanding of linkages and cause-effect
 - Literate with numbers
- Business empathy
- Strong communication
 - Verbal and written
- Analytical
- Forward thinking
- Proactive nature
- Strategic thinking
- Motivated
- Adaptive

Staff development

- Empower staff
- Create a no blame culture
 - Does not absolve accountability
- Imbed finance staff in operational areas
- Rotate staff around
- Encourage personal development
 - Especially communication skills
- Expose them to different experiences
- Develop their commercial skills (e.g. negotiation and different technical areas etc.)

Remember not all staff will want to go on the journey

- What are your business needs?
- What gaps exist in your function?
- What skills do you need to develop / acquire?
- What steps do you need to take to address them?

Being Commercial

Think differently



Opportunities are only limited by your way of thinking

Being commercial

1. Changed Debtor Management Approach

- 95% paid within trading terms (previously 30%)
- Changed T & Cs
- Educated customers (not easy)
- Acted commercially – said NO!

2. Tender Fees

- Introduced small registration fee for each item submission
- Reduced ‘bogus’ supplier capability claims
- Reduced processing time and costs

Being commercial - 2

3. GPS for Car Fleet

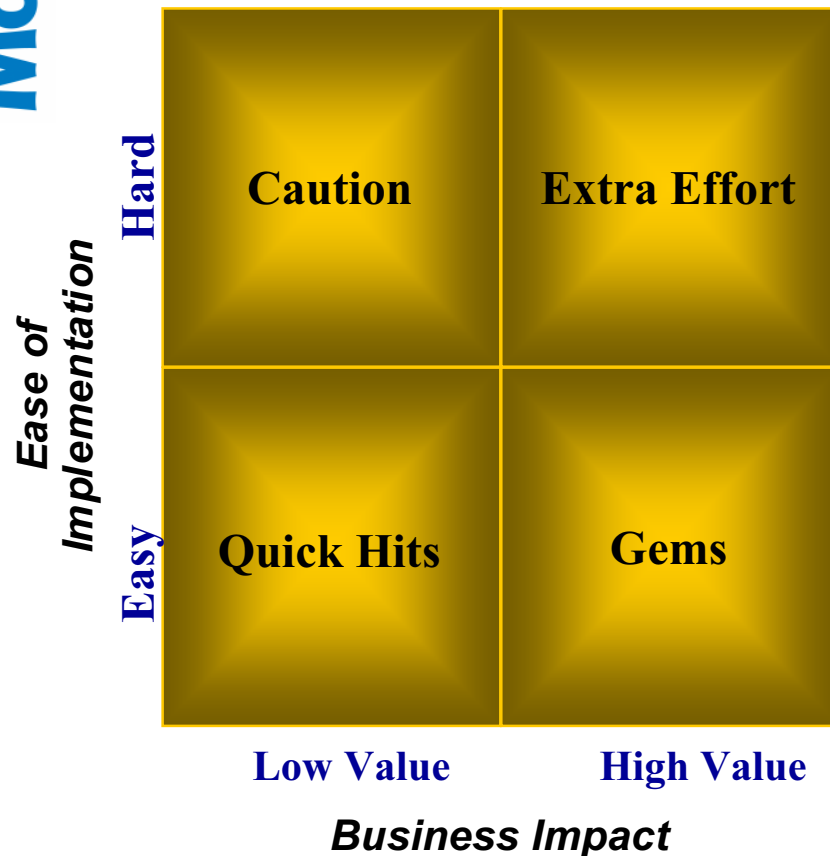
- Identified excess needs to the business (high level of low utilisation)
 - » \$4-6 million saving p.a
- Enhanced compliance
- Reduced costs (incl. FBT)
- Improved safety

4. Changing Customer Ordering Behaviour

- Introduced minimum order fees
- Simplified processing inputs and reduced costs
- Eliminated small and costly orders

Pay-off matrix

A value and effort “pay-off matrix” is utilised to prioritise generated ideas and eliminate hard/low value ideas



Gems - High Value/Easy Effort

- Highest priority due to the high value for the effort required
- Even though they are easy, apply resources and an approach that realizes all the value

Quick Hits - Low Value/Easy Effort

- High priority because the value is likely to be realized quickly
- Delegate or use rapid approaches for these because the value will not justify more effort

Extra Effort- High Value/Hard

- Priority because the value is high
- Choose wisely because the organization can only tackle a few of these at a time, and use a sound approach or the value may be lost

Caution - Low Value/Hard

- Low priority due to the low value for effort required
- Only do these if other business reasons require it (i.e. Gov't Compliance)

Concluding Comments

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Finance must:

- Become more commercially focused ...and a 'true' partner to the business
 - Provide knowledge and insight to the business
 - Actively participate in the business at all levels

- Structure operations so that it increasingly adds value to the business
 - Transactional activities to be based on achieving lowest cost
 - Greater analysis and decision capability

- Right size and skill itself
 - Appropriate skills for what is needed, now and into the future
 - Ongoing training to maintain an open and enquiring attitude

- Continually challenge the business

THANK YOU

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