

Fit Finance for the Future

Digital Finance
The strategic step of a transformation journey

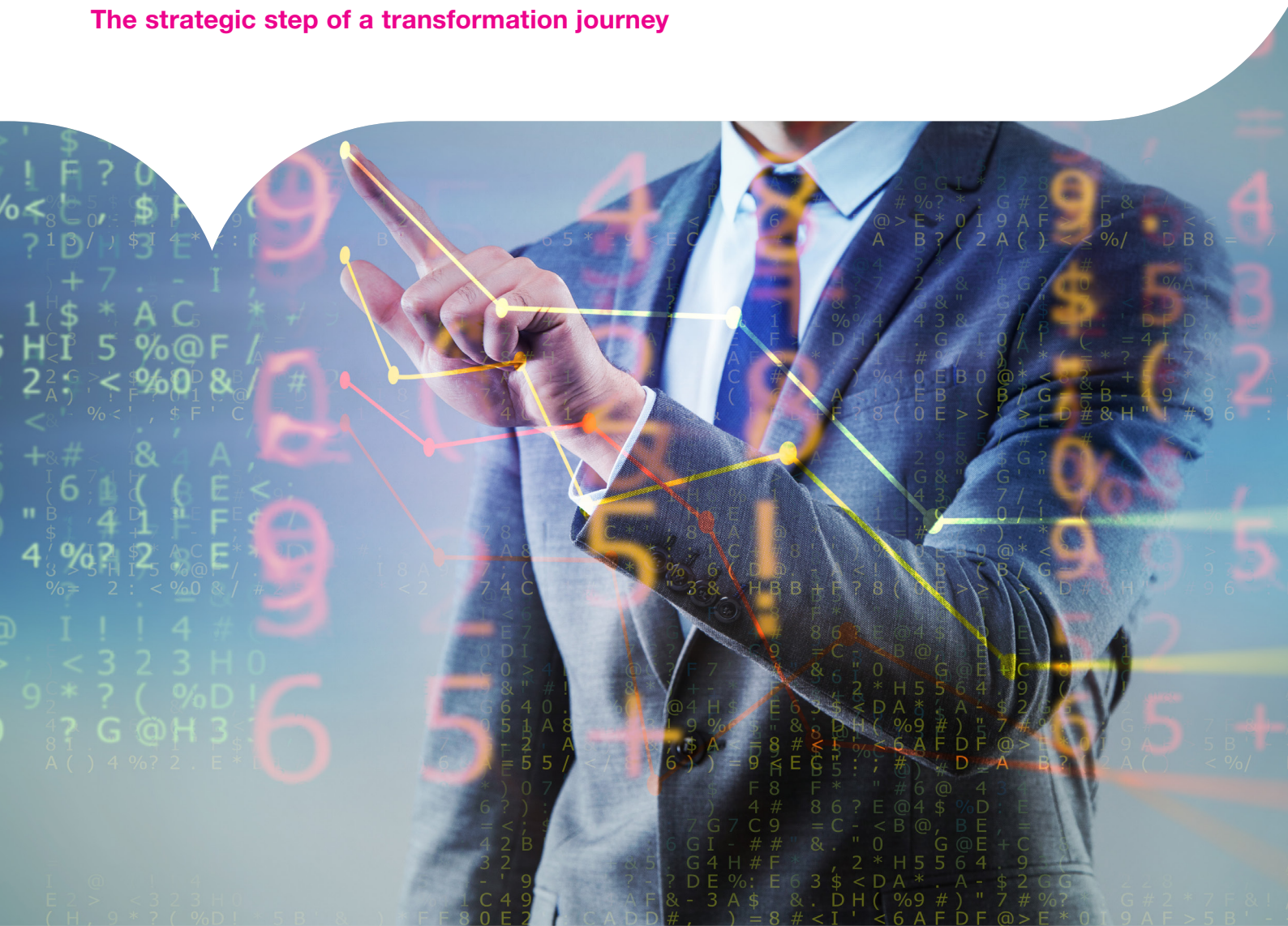


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1 The Digital Transformation and the Finance Function

The evolution of Finance is pivotal for any organization to translate its digital vision into economic value. Our research with the MIT Center for Digital Business, *“The Digital Advantage: How digital leaders outperform their peers in every industry”*, indicates the presence of a ‘Digital Advantage’ for those companies that successfully transform their business through technological innovation. They demonstrate significantly better financial performance than their peers, experiencing up to 26% higher profitability.

Many explorations of digital transformation currently tend to focus on the front end, leveraging digital technologies to develop and improve the customer experience and the customer service operations. However, to achieve true digital maturity, digital transformation has to be extended beyond customer facing operations and into the core supporting functions and underlying operating model.

In this more complicated environment the Finance function needs to support the customer experience with robust back office processes and must be able to deliver the insight required by decision makers to optimize profitability across diverse channels. Nevertheless, with recent finance drivers, these new targets must be achieved keeping an adequate control on process efficiency and compliance.

All these challenges entail a new role for the Finance function and create a new set of expectations, oriented to reduce the complexity and to improve the flexibility.

1.1 The evolving role of CFO

The Finance function has seen large scale changes over the past century. Its role has evolved from being a “simple” scorekeeper with primary responsibility for balancing the books to, more recently, a business partner contributing to value creation in the business through supporting key decision making by the provision of genuine insight.

With each shift Finance has added greater value by assuming additional responsibilities and enhancing the decision-making abilities of the organization. Finance has moved from being a necessary overhead to a function that is integral to operational and strategic corporate decision-making.

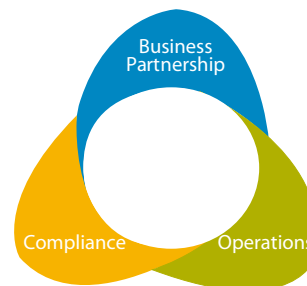
In addition, if since some years ago the business partner role was considered as the final step of a transformation journey, nowadays a shift towards business catalyst role cannot be ignored.

In this scenario, leading companies are currently shaping and implementing a pull model for insight delivery whereby employees have permanent access to information via a self service portal and a growing analytical capability will provide finance business partners with the response time and insight required to fully partner the business in strategic decision-making.

Based on their knowledge of the business at both an operational and strategic level and an understanding of value drivers in the company, the business catalyst will act as a champion for change, and will work cross functionally to not only build figures, identify deviations from plan, but to close them and improve performance. In this role a greater focus will be placed on continuously striving to unlock productivity gains, increase profitability and competitive advantage through adoption of new technologies and operating models, and leading and coordinating cross-functional initiatives.

Although the finance business partner role will evolve, Finance will continue to perform an important role in managing the performance of the business. As a trusted advisor it will be responsible for interpreting financial information and for filtering the vast amount of available data to deliver solely business relevant insight to decision makers. Further, the Finance function will continue to maintain the KPI framework used by the business to ensure that it remains relevant and tied to corporate objectives at all times.

As the business starts to change the way that it operates through digital transformation the KPIs in use may need to be constantly reviewed and, where necessary, renewed to reflect the changed nature and objectives of the enterprise.



Main Focus areas for CFOs:
Business Partnership, Operation, Compliance

Business Partnership: Proactively engage with the business to plan, model, analyze and predict the financial implications of strategic and operational decisions

Operations: Optimize finance processes for efficient and collaborative relationships with customers, suppliers, banks, and government authorities

Compliance: Maintain global regulatory compliance and controls of accounting and tax standards, across currencies, languages, industries and cultures



CFO Perimeter has Widened*:

CFOs believe their functional scope has widened from core accounting to include ‘expert functions’, ‘strategy and development’ and other areas such as purchasing and transformation.

The vision is about the CFO and Finance Organization as a business catalyst: finance business partners are equipped with big data, predictive analytics and real time useful insight to fully partner the business in strategic decision-making.

* Source: Survey “CFO as an enabler or a leader of Digital Transformation”, 2011

2 The Radical Performance Drivers

In a digital disrupted world, CFOs are struggling to provide answers and apply actions responding to a set of expectations related to:

- Develop a faster forecasting model, to ensure a planning process performed on a daily base where outlooks will dynamically be adjusted to market conditions and company performance;
- Deliver Insight, where the data accuracy will improve despite volatility, uncertainty and a wider spam of data points;
- Deploy performance systems, based on larger volume of data, internally gathered thanks to IoT and externally collected by integrations with the “social world”, easily turned into Analytics, available everywhere at any time via mobile and applying cloud integration platforms to optimize costs;
- Sustain strategy pattern definition, advising business leaders toward a disruptive business model adoption.

Our experience working with leading companies demonstrates that ways to cope with these digital expectations belong to five pillars:

- Enterprise Standards
- Shared Services Centers
- Automation and Digitalization
- Enterprise Performance Management
- Global Talent Management

2.1 Enterprise Standards

CFOs are frequently asked to use and control his resources in a target-orientated, efficient and effective manner. Nevertheless, they're faced to maintain a balance between tactical needs and long-term goals in terms of:

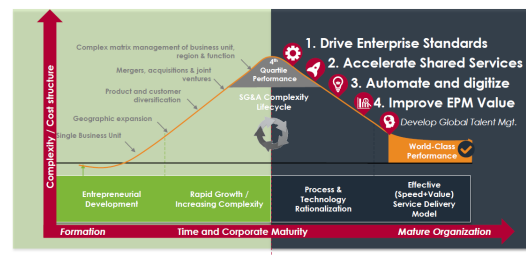
- Transactional processes: increase transactional processes productivity and Shared Services Centers activity (optimization, referential harmonization);
- Performance management: enhance group performance management and add value in BU controllers activities (data quality, common referential, industrialization, modeling tools, ...);
- Treasury process: improve efficiency and expand cash pooling scope;
- Information Technology: identify technological innovations to increase productivity and optimize Finance IT costs.

In this scenario, the harmonization of data and processes need to be considered as key areas of improvement and a cornerstone of a rationalization process of data and process model enabling subsequent levels of effectiveness and efficiency. Those incremental steps are usually obtained by two different approaches:

- GEM (Global Enterprise Model), finalized to deliver an optimal Target Operating Model tailored on company needs, leveraging on some critical dimensions (i.e. competency model; global process model, technology; governance; etc.);
- EOAR (Eliminate, Optimize, Automate, Robotize) intended to:
 - Eliminate manual and paper based activities;
 - Optimize processes limiting customizations and IT landscape (using as much as possible out-of-the-box/ cloud solutions and capabilities);
 - Automate in such area such as account payable and receivable, treasury;
 - Robotize, delivering robotic solutions to reduce the number of interface to be built.

A research on a set of Capgemini's global customers demonstrated that GEM helped them to accomplish relevant results:

- 70% reduction of operating cost of accounting back office
- 50% productivity improvement in credit collection
- DSO decreased by 20%-30%
- 20% improvement in compliance metrics
- Revenue leakage reduced by 15%
- 80% time reduction on month-end and reporting process



Radical Performance Drivers managing complexity and unleashing value*:

Organization are inherently inclined to grow leveraging a set of strategic actions (such as the geographic expansion, product and customer diversification, M&A deals, etc.) that generates value and complexity.

In this scenario mature organization can take a real and consistent advantages from digital transformation.

* Source: Hackett World-Class model

2.2 Shared Services Centers

CFOs often inherit Shared Services Centers (SSC), legacy structure from before automation existed, and should be actively seeking to reduce the infrastructural and organizational redundancies and start leveraging on those to unleash efficiencies.

The traditional SSC focused on cost efficiency, service effectiveness, internal control and complexity reduction, but, in the last years, new business issues and exogenous factors keep on challenging their mission.

CFOs extended SSC's value proposition into new scope areas and induced SSC to act more and more as transformation factory, innovation lab, unified governance structure of blended delivery models.

But there is still a lot to do and many opportunities to exploit to fully leverage SSC in Corporate excellence and best-in-class standards.

The roadmap toward the next generation of SSC can be defined among the following dimensions:

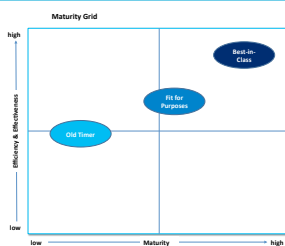
- Question to Vision, meant as the key questions to start the journey envisioning;

- Goal to Set, meant as the main area where the most reliable results are expected;
- Solution to Accomplish, action or tools to execute the strategy.

SSC organizations can be assessed thanks to the maturity grid and taking in consideration maturity level and efficiency & effectiveness level. By this matrix three main clusters can be defined:

- Old Timer, acting with local models and applying a simple fixed price engagement approach
- Fit for Purposes, applying regional operating model and focused on a continuous improvement approach;
- Best-in-Class, working with a global delivery model and applying all technologies able to ensure additional benefits.

ACCELERATE SHARED SERVICES MAP		
Question to Vision	Goal to Set	Solution to Accomplish
How to digitally empower the SSC?	Cost Efficiency & Service Effectiveness	- Robotics (RPA) - Process Digitalization - All Channel Experience (ACE) - Center of Analytics
Will the SSC be multi-functional or specialized?	Transformation & Delivery Excellence	- Bundle Finance, HR, IT, Procurement, ... - A single Governance under a global Shared Services Organization - Cross functions services
Will the SSC be onshore, offshore, or a kind of mix?	Sinergies Labor Cost Arbitrage	Leverage large scale through: - Network of Global & Regional Hubs - Mix of Transactions - Centers & Centers of Excellence
Will we make it or buy?	Acceleration of ROI	- Hybrid Model leveraging best practices of Captive Centers and Outsourcing Partners



The Maturity Grid for Shared Services adoption:

Maturity Grid for Shared Services adoption allows to cluster organizations in three domains where most common peculiarity are here reported:

- Old Timer:** multi ERP; talent attrition; local approach; transactional service focus; fixed fees pricing model;
- Fit for purposes:** single ERP and automation; investment on talents; regional approach; service value focus; continuous improvement; transaction based pricing model;
- Best-in-class:** world class tools (including robotic process automation); manage talents; global delivery model; service and business value focus; gain share; manage end-to-end processes with ownership and accountability.

This pattern adoption appears as a secure way to improve the efficiency of the finance function unleashing time and resource for more valuable activities.

2.3 Automation and Digitalization

As stated at the beginning of this paper, digital is the heart of the finance transformation journey. Digital technology has to be considered as the best enabler improving and increasing efficiency of transactional processes (such as Order-to-Cash, Purchase-to-Pay, Record-to-Report and Cash Management).

Accordingly to our research (Source: Capgemini Consulting Digital CFO Survey, 2014), a high percentage of CFOs, more than 80%, expects their digital investments will drive significant increase of productivity: benchmarks show that costs are reduced by 65% when digital technologies are applied to Order-to-Cash process and by 71% when digital technologies are applied to Purchase-to-Pay process.

Nevertheless, in Record-to-Report process a room (from 20% to 40%) for additional improvements still exists across majority of sub-processes, on transactional and expert side as well.

Those additional improvements can be achieved through following technologies:

- Robotic Process Automation (RPA), the next big thing in process automation. The typical business processes where it can be used are related to repetitive tasks carried out 50-60 times a day, ERP and other back office transactions, mass mail generation, period reporting and data analysis. Thanks to robotization, possible gains in terms of cost and effort will be equal to 70%;
- Cognitive Automation, will fuel the next move to improve the efficiency of tasks based on:
 - Higher level of processing complexity;
 - Unstructured input data type.

2.4 Enterprise Performance Management (EPM) Value

Accordingly to Business Partner role, one of CFOs' top priorities is to have an accurate vision on company's performance. Their mission is to support decision-making analyses and to improve business performance almost in real time with greater efficiency.

One key success factor is the way this information is provided to business in order to speed up and ease the decision-making process. Digital solutions have changed drastically during recent years in order to help CFOs manage data and ease reporting analysis. New Digital Performance Management tools are available on mobile and tablets. They are easy to use, flexible and efficient (interactive pie charts and graphs, granular visibility and comprehensive multidimensional drill down analyses are just a fraction of what can be used). In addition, they provide the capacity of performing data analyses and what-if analyses essential for decision-making.

Finally these tools enable CFOs to monitor decisions through key performance indicators that are refreshed on a real time basis.

Indeed, we mean here that company and Finance departments have to move from a pure reporting (finalized to represent what happened before, to exactly find the problem and to analyse other more details) to:

- Tactical Analytics, serving to explain reasons/causes of a problem and to determine, from a statistical point of view, if a current trend will proceed or not;
- Predictive Analytics, focused to foresee the future, explaining what will happen and helping business leaders to take the actions.

Leading organizations have already started to work in this direction, developing solutions on.

- Revenue Analytics, to increase revenue and reduce leakage;
- Expense Analytics, to reduce costs and increase margin;
- Working Analytics, to improve cash flow;
- Control Analytics, to mitigate business risks.



Improving EPM Value by Insights 360°

Capgemini can provide Finance leaders with a complete suite of analytics based on tools and services.

Insights 360° is a complete offering that provides practical, implementable insights. It does so using artificial intelligence-based classification parameters that enhance granular visibility on company's performance. Boosted by its comprehensive multidimensional drill-downs capabilities, Insights 360° helps organizations to identify and prioritize opportunities and risks. Insights 360° focuses on:

- **Revenue Growth**, based on revenue and pricing analytics;
- **Margin improvement**, focusing on spend insights, product margin analysis, COGS and SG&A analytics;
- **Risk and reputation**, to monitor risk&compliance points;
- **Working Capital**, providing analytics on receivables, payables, inventory and cash.

In addition, Insights 360° also contains consulting services on M&A integration deals, investment research, finance modelling.

2.5 Global Talent Management

As enterprises continue to become more digital, Finance will become increasingly dependent on automation and analytics to deliver real-time, clear, actionable, and forward-looking insights.

CFOs are more and more perceiving that the technology can serve as a catalyst for change and performance breakthrough achievements but they will need to find how to best address the technological impact on their organization and people.

This is leading to a period of rapid learning for CFOs, as they seek to understand the changing role of Finance and its contribution to the organization in this now digital landscape. CFOs are tasked with expanding the range of skills within

the Finance function to harness the possibilities of new technology and new ways of thinking.

CFOs will need several skills in order to keep up with the pace of digital change in their role.

- Digital knowledge;
CFOs must be tech-savvy in order to capitalize on technical innovations that will benefit their company and their industry as a whole.
- Data-driven execution;
CFOs will need the ability to execute company strategy and operations decisions based on data-driven insights.
- Regulatory compliance;
Regulations continue to be more stringent globally, so CFOs will need to be proficient at working closely with regulators and compliance systems.
- Risk management;
With the growing global economy comes increased cyber and geopolitical risks worldwide. The CFOs of 2020, especially those in large multinational organizations, will need to have the expertise to monitor and manage risk in areas that may be unforeseen today.

Those skills will remain critical, but now these will be supplemented by new disciplines as the function looks to deliver new services beyond its traditional domain (for instance, emerging jobs are data scientist, machine learning engineer).

This evolution is bringing with it a skills gap. Skills will quickly become outdated and CFOs will better tailor their departments to best find and retain talents in a growing competitive and global job market.



Global talent management and skills gap

Although governance of Analytics will not sit under of CFO in all organization, it is frequently within the CFO's remit.

One of CFO's first priority is to introduce in their organization data scientists to thrive in the new information economy.

These individuals combine skills from engineering and data management with mathematics and writing and in short supply.

Defining what skills are required by the business and growing this capability are among the key challenges that need to be addressed to avoid getting left behind by competitors.

3 Digital Finance as a strategic step of a transformation journey

So what does Digital mean for Finance?

The evolving perimeter and scope of the Finance function widen CFO's role, from the mandatory-base scorekeeper and steward ones, up to the actual analyst and business partner ones.

Finance business partners embracing the digital evolution are equipped with digital big data, predictive analytics and real time insights; they are able to fully partner with the business in strategic decision-making.

As a matter of fact, the sooner CFOs will embrace the digital vision, the faster they will move their finance organization towards the Digital Finance and will play the role of Business Catalyst.

3.1 The nine building blocks for Digital Finance

To run Digital Finance, CFOs must now excel in all roles and, in parallel, reduce the costs of the function.

What does Digital Finance consist of and how do CFOs take the first steps in digital transformation?

Based on MIT – Capgemini Consulting research on digitalization, the digital transformation building blocks are:

DIGITAL TRANSFORMATION BUILDING BLOCKS	
Social	Socials have provided businesses with new ways to reach and interact with stakeholders
Mobile	Mobile technologies have changed the way people communicate, shop and work
Analytics	Allow businesses to understand how, when and where people consume certain goods and services
Cloud	Provides a new way to access technology and data needed to quickly respond to changing markets and solve business problems

Capgemini's proposition for Digital Finance is based on nine building blocks – referred to as the Digital Finance Framework – addressing and focusing on how Finance function can leverage digital to become smarter, simpler and safer:

Communication

Finance will always be responsible for the internal and external financial reputation of the company. External communication will become more personal. Internal communication will see the creation of social platforms that use and value the expertise of all employees.

Planning and forecasting

Real-time feeds of internal and external data sources ensure that forecasting can be done continuously. Planning will become thinking, as Reaction is transformed into Action. Reacting to data will be replaced by using data directly to create value.

Mobile reporting

Mobile is leading the digital world. Finance needs to report all financial information in a personalized and secure way. Information has to be accessible anytime and anywhere.

Digital Performance Management

The new digital world offers to companies new possibilities

to steer, act and react immediately. Autonomous business managers will be able to slice and dice all relevant information that are provided to them by both business and finance. The option to drill-down will give more specific insights in performance.

Cash optimization

The Finance of the future requires the possibility to transfer funds anytime, anywhere in a secure way. Cash flows will be automatically forecasted and optimized, based on real-time feeds from external sources.

Close automation

The Finance function of the future is all about working smarter; with new digital control points that provide extra opportunities for value creation. To achieve this, the financial close needs to become virtual and immediate.

Data enablement

Finance has to adapt to the changing world. It will be the 'conductor' of the single version of the truth with regards to financial and non-financial data. Finance will be data driven; data analytics and data science will form the basis to react to daily changes.

Cloudification

The Cloud makes operating with one financial system more flexible and more secure. Forces have to be combined so that data can be shared and new opportunities will emerge. All data, simulation, and modeling tools will be put together in one system. Excel will be superfluous.

Efficient and effective sourcing

Finance will be simpler. Transactional activities are either digitalized or outsourced. The Finance function of the future will have to consist of solely value adding activities. Organizations will incorporate in-house Centers of Excellence, for example in Analytics.

Finance Transformation Framework

The journey towards a digital finance organization foresees three stages:

- Envision - Define Vision & Ambition. Activities delivered: inspiration sessions; assessment on digital maturity; formulate a vision
- Design - Create roadmap for change. Deliverables produced: digital finance roadmap; project plans for execution; business cases for implementation
- Implement - Execute digital transformation, consisting of: future proof organization model; digital capabilities and skills; technology innovation and solutions

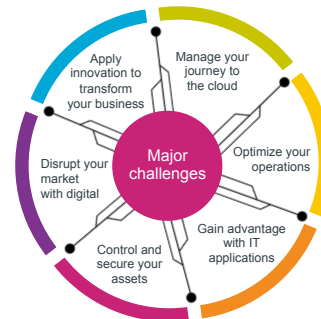
The final result is to transform the function in a digital finance organization leveraging methodologies, tools and skills strengthen the entire organization

3.2 Conclusions

The finance function is no stranger to changes, but CFOs and finance professionals need to prepare for an acceleration in the scale and pace of change in the digital age. Where digital transformation is embraced by Finance changes will be sweeping, bringing greater efficiency to the way in which processes operate and enhancing the value that the function brings to the business.

This change will be faster and effective as much as Finance function will embrace a transformation journey to keep up with rapidly accelerating customer, technology-driven and environmental trends:

- The Way of Working will be changed and optimized by and in the new Digital Age – **adopt Radical Performance Drivers;**
- The Role of Finance will be different and has to be developed in close collaboration with business – **act as a Business Catalyst;**
- New skills and competencies need to be developed / are required to benefit from digital opportunities – **invest on Talent Management;**
- Finance has to adapt to Social, Mobile, Analytics & Cloud (i.e. SMAC) in the future function – **apply new digital technologies.**



Digital Finance and Italian market – point-of-view:

The state of the art in Italian market is commented by Laura Muratore, Head of Manufacturing, Retail and Consumer Product at Capgemini Italia.

“Our professional experiences on the Italian market allow to confirm that the digital transformation is now a consolidated reality and the growth of a digital thinking for finance function has simultaneously started.

Most part of our clients have embraced the journey in a well structured manner, starting from an assessment phase to build-up a transformation road-map defining the peace of changes for the next 3-5 years.

Market trends demonstrates that the main area of interest are related to: transactional and operational processes (harmonization and simplification programs need to be completed in some cases; in others ERP merging platforms are still on the way); treasury optimization and cash flow outlooks are frequently asked regardless company dimensions; closing procedure are strongly required from CEO to their finance leaders.

But the area that can register in last months higher levels of interest from our CFOs is about forecasting&simulation, analytics and what-if analysis.

This reveals a solid and adequate vision from our finance leaders, aimed to have an accurate vision on company’s performance and committed to speed-up and ease the decision-making process.”

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