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Why CFOs Must Lead the Charge to Modernize the Business—Now

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Introduction:

Before It's Too Late

In today's cutthroat economic environment, where global business is transacted across multiple time zones on a punishing 24/7 basis, speed in decision-making is essential. Every second counts in assuring a company's performance lines up with strategic intent. Such is the price of success.

Organizations that can capitalize on real time performance to make timely decisions on how to seize market opportunities or circumvent emerging risks are best positioned to win in their respective marketplaces. To be able to knowledgeably push forward with current plans or divert course quickly—companies must make decisions faster than the punishing pace of business.

Many organizations have modernized their enterprise IT systems to access the information they need to make insightful, bold decisions. Others continue to be bogged down by legacy systems impeding their growth. Consequently, these companies are moving at a snail's pace while the velocity of the global economy is whirring.

Yesterday's IT systems provide limited visibility into performance across the enterprise. They further fail to scale with global growth and are slow to respond to changing market dynamics. As a recent study by The Hackett Group stated, many companies with legacy technology are "flying blind"—not the best way to run a modern business.[1]

[1] http://www.thehackettgroup.com/about/research-alerts-press-releases/2013/10172013-hackett-companies-globalization-flying-blind.jsp

Business change is happening faster than IT can keep up.

Another factor delaying modernization is unfamiliarity among many boards of directors regarding the technology needed to operate a modern enterprise. Technology permeates nearly every part of the modern, fast-moving company. Technology trends like cloud computing, big data, mobility and social media have altered finance, manufacturing, HR, marketing, sales, supply chain management and other functions and operations. Yet, boards are generally ill equipped and reluctant to advise on technology-related matters, according to a survey of board directors by McKinsey & Company. The study indicates that more than half (52 percent) of boards have either a single technology-related discussion a year or none at all.[2]

Obviously, someone must take charge of modernizing the organization, equipping it with technology that provides access to business information as it occurs. This individual is the Chief Financial Officer, to whom IT and many Chief Information Officers now report.[3] This was the conclusion of a Gartner and Financial Executives Research Foundation report, which indicated that the CFO is "increasingly becoming the top technology investment decision maker in many organizations."[4]

To handle the responsibility, today's CFOs are broadly skilled individuals cognizant of the business urgency for modern technology. Their purview extends well beyond the finance organization to all corners of the modern enterprise. In many organizations, they have been entrusted as the overseer of enterprise intelligence and corporate management performance. Finally, they have responsibility for resource allocation—knowing where best to invest capital to generate profitable business.

[2] http://www.mckinsey.com/insights/business_technology/elevating_technology_on_the_boardroom_agenda
[3] http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/CFO_Center_FT/us_cfo_CFO-Insights_Data-driven_102412.pdf
[4] http://www.gartner.com/newsroom/id/1363119

“FIRMS THAT DONT MODERNIZE STAGNATE.”[5]

Forrester Research

This research paper argues that it is up to the CFO to work with IT to modernize the business before it is too late. Enterprises need greater transparency into the streams of data illuminating imminent market opportunities and market risks. They need systems that scale in step with the organization’s organic and inorganic growth. They need technology assisting a more intimate customer relationship. And in this era of pronounced skills shortages, they want a platform helping employees collaborate towards a shared purpose. Doing nothing is not an option. As a recent Forrester Research report warns, “Firms that don’t modernize stagnate.”[5]

Here are five powerful reasons why the CFO must lead the charge to modernize their organizations now—or risk being outrun by the competition.

Reason #1: Scale or Fail

Today’s modern enterprise is a labyrinth of many parts, geographies, systems and people, all of it constantly evolving. Workforces are distributed, customer demands are ongoing, and both the infrastructure and regulatory compliance milieu are forever shifting. As organizations seek growth, navigating this confounding maze to achieve it is daunted by IT systems that obscure market opportunities and threats.

Growth is everything in business. In a survey of finance executives about their organizations’ growth strategies by KPMG and CFO Research, half (48 percent) of respondents cited plans to diversify product and service lines and develop service extensions, and 44 percent said were planning to develop new business models.[6] To achieve these objectives, more than three-quarters (76 percent) of the finance executives said they hoped to improve the quality of financial data and analysis available to management. They were hindered in this regard by a need for “better management reporting and analytical systems” and “better business planning and forecasting tools,” cited by 60 percent of respondents as their highest priorities.

Obviously, there is a disconnect between these companies’ growth plans and the tools to assist it. While CFOs aspire to modernize their organizations to dynamically shift on a dime with a momentum that crushes the competition, the question remains how?

The answer is a firm resolution to consider the value of modern cloud-based business management software. Such solutions can respond to the need for fast access to business performance data, which is critical to making informed, assured decisions. Yesterday’s IT systems impede this capability, given the need to constantly implement new versions, patches and upgrades, and undertake the rigors of systems integration. CFOs need IT staff and CIOs focused on generating profitable business—not spending a majority of their time and resources stitching together the IT system.

Moreover, CFOs can’t effectively plan how to grow revenues or when to alter course when the information they need to make such vital determinations is inaccessible across the enterprise. Unfortunately, this is the status quo at many organizations. More than two-thirds (68 percent) of finance executives in a KPMG/CFO Research survey stated that their enterprise technology platforms were duplicative and complex, and 61 percent said these IT systems were incompatible across the enterprise.[7] In many cases, simply adding new products, sales channels and geographies to seize competitive opportunities in this IT environment can require a year of contemplative decision-making. In today’s feverish operating environment, this is simply too long.

[5] The Application Management Continuum Offers CIOs A Contemporary Approach To Modernization,” Forrester Research, July 2008
[6] Intelligent Finance Organizations: Insight into Empowering Finance and an Intelligent Enterprise,” CFO Research and KPMG
[7] http://www.kpmg.com/US/en/IssuesAndInsights/ArticlesPublications/Documents/intelligent-finance-organizations-summary.pdf

"WE NEEDED A SYSTEM THAT WOULD SEAMLESSLY SCALE WITH US."

Tom Hearne
CFO
TheScore

It was too long at TheScore Inc., a Toronto-based global provider of mobile sports, news and information applications. The company was spun out of a television station (Score3 Media) as a promising mobile application in October 2012. Initially, it relied on the former parent's legacy system, but it did not provide the flexibility or maneuverability the fast-growing organization needed. "It was a pain to administer," said Tom Hearne, TheScore CFO.

"When you're starting out as a small software company, scalability is a huge issue," he explained. "We needed a system that would seamlessly scale with us. We also wanted the ability for the finance organization to go to the other departments in the company and work with them specifically on what we wanted measured and modeled from a performance analysis standpoint. This way we could build these features into the new system."

The company also sought a platform that would effortlessly handle multiple currencies as it expanded globally and adapt to employee relocations as it grew geographically. It wanted to be able to quickly add or delete new departments as it expanded, and integrate finance, accounting and treasury functions with its extant HR and payroll systems.

Within finance, Hearne specifically wanted a system that would offer project management capabilities, as the company is "a heavy development shop," he said. "We've got lots of different projects going on at once and to be able to integrate them with your financial system saves a lot of time."

Hearne is a big believer in a system that would entrust each subject matter expert in the organization with inputting business intelligence of import to everyone else in the company. "I didn't want us to still be manually inputting stuff into the sales system and printing this off, then sending it to finance and inputting and printing it again, and then sending this off to others who needed to see it," he explained.

Asked why, he replied, "Because it is 2014 and this is how a modern company operates today. The time you save can be invested in more important efforts."

Reason #2: Agile Responsiveness to Market and Customer Dynamics

The modern CFO must be able to access and quickly analyze information on customer demand, transactions, service issues and interactions with functional departments. They must be able to evaluate the effectiveness of tactics to upsell, cross-sell and otherwise improve the customer experience.

To do this well, they need a 360-degree view of the customer, which requires visibility into the sales pipeline, inventory, suppliers, order fulfillment, accounts receivables, accounts payables and any other customer-facing interaction across the enterprise. Such real time data in the hands of executives, managers and all other relevant employees is a treasure trove of actionable information. But, with legacy IT systems it is either inaccessible or delivered too late.

Without immediate access to wide-ranging performance data, organizations risk making ill-informed decisions. When plans are performing well, this is less of a concern than when they are failing. Unable to quickly gauge a worsening situation, the company tosses good money after bad. It cannot change course without first knowing where it made a wrong turn related to a new market, product launch, sales channel or geographic region. Even the best-laid plans go awry; what is imperative is to swiftly know when they fail, as they fail.

Modern companies require modern technology to have this insight in hand to safely grow the business. Take the case of Anisa International Inc., a supplier of beauty products and accessories that perceived an opportunity to expand its product line and markets.

At its launch 22 years ago, Anisa International solely manufactured cosmetic brushes that were aimed at the high-end of the consumer marketplace. Its unique brush shapes, grades and materials served diverse applications, and it quickly secured significant market share.

In 2003, the company expanded into new beauty product lines like fingernail implements and built a manufacturing plant in China that it now wholly owns. From its headquarters in Atlanta, it suddenly had to manage a global supply chain that would deliver necessary ingredients to its China-based plant, and a sales force that would sell its products globally. “We were a small company from an operating standpoint but now had these big responsibilities,” said Gary Heege, Anisa International CFO and senior vice president of IT.

He pointed out that Anisa International employed 650 people at the plant in China and yet had less than a handful of people in finance to manage global business planning and forecasting. “Our margins were tight and our resources were strained,” Heege said. “Could we simply drop in a treasury department with foreign exchange responsibilities? Not really.”

“I DIDN’T WANT US TO BE STUCK WITH A BIG INSTALLED SYSTEM COSTING A TON OF MONEY AND THEN HAVING TO CONSTANTLY UPGRADE IT, REWRITE CODE AND TEST ALL THE CUSTOMIZATIONS. I NEEDED SPEED AND DATA ACCURACY, WHICH A CLOUD-BASED SYSTEM GAVE US.”

Gary Heege
CFO and Senior Vice President of IT
Anisa International

Anisa International wanted to be able to quickly respond to market changes and evolving customer demands. With regard to the latter, when a major retailer mulled specific design changes to a cosmetic implement, it was then up to the company to customize the product in as short a timeframe as possible. Unfortunately, its prior system made it difficult to know what was going on with customers. “From a CFO point of view, I had very little insight into our markets and customers,” Heege said.

While he considered investing in an expensive, on-premises IT business system, he was further limited by the lack of an IT staff to serve it. He did not want to invest in this labor, however. “Our core competency is our keen ability to look at fashion trends and design products while the trend is hot,” he said. “I didn’t want us to be stuck with a big installed system costing a ton of money and then having to constantly upgrade it, rewrite code and test all the customizations. I needed speed and data accuracy, which a cloud-based system gave us.”

Today, the process from fashion trend spotting to customer delight is swift at Anisa International—not bogged down by ineffective systems and outmoded processes.

“In the past we’d have to issue a separate customer sales order and purchase order to the plant in the system, even though 90 percent of the information was the same,” Heege said. “Now we execute the sales order, which creates the purchase order automatically and breaks this into work orders for the different departments, something we used to do manually before.”

The time finance invested in these non-strategic tasks is now devoted to identifying trends and adapting the company’s products to new geographies and other market opportunities. Anisa International has not only garnered more business, it is a much scrappier company able to shift plans and tactics to its competitive advantage.

Reason #3: Data Driven Insight to Make Intelligence Decisions

There was a time when gut instinct was a pretty good way to run a business. Henry Ford figured black was a great color for the Model T simply because it looked great and he had plenty of the paint on hand. As Ford's competitors produced cars in other colors to great market appeal, Ford's next "gut instinct" was to follow suit.

Today, these decisions seem quaint. Growth has become a science, not an educated guess. This science is data analytics, which inform forecasts and performance-focused decisions. All organizations are data-driven entities—their respective business prospects affected by real time geopolitical news, market developments and customer trends. The key is to be able to access both this exogenous data and internal company data faster than the competition to make smart, quick and confident decisions before they do the same. This requires unimpaired visibility across the enterprise, time zones, geographies, subsidiaries—anywhere and anytime. In other words, seeing is believing.

Victoria Davies has this insight into the data driving business at Knightsbridge, a Toronto-based provider of human capital management solutions. Before joining the firm as its CFO in 2003, Davies worked in finance at KPMG and Pepsi-Cola. Knightsbridge was created in 2001 from four foundational acquisitions, and Davies was recruited to pull the organizations together as a cohesive unit to provide a deeper understanding of business performance across the enterprise.

"In the early days, just getting the proper controls and reporting across the different business units in place consumed most of my time," she said. "We had a small, unsophisticated finance team and an inferior accounting system. It was pretty good at capturing data, but getting data out of it for decision-making purposes was difficult. Foreign currency translation and consolidation required deconsolidation first and to get a simple report was like pulling teeth."

Davies led a fairly long strategic planning exercise that borrowed extensively from her experiences at Pepsi-Cola. She had just used salesforce.com for the first time and thought, "It could be cool if there was something like salesforce.com for accountants," she said.

"I CAN SEE HOW MUCH HAS BEEN INVOICED, THE SALES RESULTS OF INDIVIDUAL SALESPEOPLE VERSUS THEIR QUOTAS, THE GROSS MARGIN BY SERVICE LINE, VARIOUS ROLLING CALCULATIONS, AND THE G&A (GENERAL AND ADMINISTRATIVE EXPENDITURES) AS A PERCENT OF REVENUES EACH MONTH."

Victoria Davies
CFO
Knightsbridge

Although the firm's controller at the time urged the purchase of a large, installed ERP system, Davies felt the company's size required a more nimble cloud-based solution that would provide fast, accurate insight into its performance and would also scale with its growth. "We had some amazingly quick wins," Davies said. "As we moved into Australia, the UK and the US, our foreign currency translation was seamless. We no longer had to do invoices in (Microsoft) Word and have them couriered to finance to enter into the system, which had resulted in invoices flying all over the place. This is now automated, helping improve our DSO (days sales outstanding) by ten days."

Other documents and reports executed using Excel spreadsheets are now filled out directly by employees in the cloud-based system—no uploading required. And its recent acquisitions were up and running from an operational standpoint in a week, compared to months in past. "Previously, we'd do an acquisition and would have to teach the new staff how to do an invoice on Word, which for some acquired companies was a step backwards," Davies noted.

Most important for Davies, the new cloud-based system presents her with the performance data she needs on a dashboard. "I can see how much has been invoiced, the sales results of individual salespeople versus their quotas, the gross margin by service line, various rolling calculations, and the G&A (general and administrative expenditures) as a percent of revenues each month," she said. "The CEO has an individualized dashboard, as do salespeople. They are able to quickly know their targets, how they're performing against them and what their accounts receivables balances are. This information then pulses right to me."

Reason #4: Know Thy Customer

Customers today are everywhere, residing in diverse geographic regions and markets. Knowing their growth strategies and pain points to effectively serve them with advanced products and services requires a greater understanding of their business goals, challenges and needs. This is made difficult by their geographic dispersion—legacy IT systems buckle under the strain of trying to provide one version of the truth when it comes to the organization's customers.

Knowing thy customers is made easy and seamless by cloud-based mobile software solutions, particularly when these mobile apps are in the hands of employees who are closest to buyers. Such middle and lower-level employees often know more about customers than the leaders in the C-suite. As CFO magazine reported, "Get them to type in a few operational measures on their smartphones or tablets, and the future becomes clearer for finance, enabling more-confident, bolder decisions."[8]

When they have this information, employees become an organization's front-line decision-makers. This is the situation at Nobel Learning Communities, a not-for-profit organization providing centralized curriculum support to private preschools, elementary and middle schools. "People here are taking control of their work lives because they can access and produce information more nimbly and quickly," said Tom Frank, CFO at the West Chester, Penn.-based company. "People are more apt now to have in-depth business conversations simply because they are carrying around this trove of information with them on their mobile devices."

Frank has led the charge the past ten years at Nobel Learning Communities to leverage cloud-based technology to enhance strategic decision-making. "Many organizations are starved for performance data, which affects their ability to continue to be a viable organization," he explained. "I've worked at companies where the IT systems were built from the ground up over a period of time and required constant maintenance and new infrastructure to keep things hanging together. Vendors would make a change in the system, then something didn't work, then they fixed it, and all the while you're wasting time."

The legacy system also did not provide visibility into the company's customers—the private schools it serves. "This is vital to us, as our mission is to help the schools build a solid academic foundation for its students' future success," Frank said.

When he joined Nobel Learning Communities in 2004, Frank was given the opportunity to achieve these aims by modernizing the business. The company invested in a cloud-based system that, he said, "bends to our will" to deliver on its value proposition. The system provides immediate access to business data generated by the more than 180 private schools it serves.

The system also allows the finance group to make more accurate forecasts for business planning purposes. "Unlike the previous legacy system, the cloud-based suite can be integrated easily with business applications for planning, employee lifecycle management, travel and expense, and sales management, among others," Frank explained. "There's an ecosystem of third-party mobile apps out there that we picked up along the way to provide access to real time information that would enable more responsive business decisions."

Not only does Nobel Learning Communities better understand its customers' challenges and goals, it has been able to bolster the bottom line. Said Frank, "we've been able to reduce headcount in finance by 30 percent over the past nine years, a period when the company's revenues skyrocketed 200 percent."

"WE'VE BEEN ABLE TO REDUCE HEADCOUNT IN FINANCE BY 30 PERCENT OVER THE PAST NINE YEARS, A PERIOD WHEN COMPANY'S REVENUES SKYROCKETED 200 PERCENT."

Tom Frank
CFO
Nobel Learning Communities

[8] http://www.cfo.com/forecasting/2013/10/may-field/

"IT ENABLED US TO RAPIDLY ADDRESS OUR ORGANIC GROWTH NEEDS INTERNATIONALLY, CLOSE SEVERAL ACQUISITIONS QUICKLY AND GET THEM ON LINE, AND HANDLE ALL THE NECESSARY CONSOLIDATIONS."

Ben Ertischek
CFO
Viewpoint

Reason #5: Because Speed Is Everything In a Modern Business

No company can rest on its laurels today. Global geopolitics change on a daily basis, markets evolve at the speed of light, and disruptive innovations burst forth with shocking regularity. Dynamic decision-making must be the norm; otherwise a company will always be the latecomer to the party, its competitors having all the fun.

IT systems can either grease the fast-turning wheels of commerce or gunk them up. Take too long to grasp and seize market opportunities and they will be squandered. Rely on outmoded performance management tools to evade emerging risks and suffer the worst. Invest in systems that do not inspire employees towards a shared purpose and they will become disengaged. Fail to address customer objectives and concerns and they will turn to your archrival.

IT systems must keep pace with the dizzying speed of business. This is the case at Viewpoint Construction Software in Portland, Ore. Just in time, too.

Five years ago, the family-owned company marketed a single enterprise application software package to the construction market in the United States. It tallied 140 employees and $19 million in annual revenue. Fast-forward to today and Viewpoint sells multiple products in 26 countries, employs more than 700 people and chalked up an impressive $140 million in revenue in 2013. Instead of serving contractors only, it now provides software applications to nearly the entire construction ecosystem, from developers to subcontractors.

This remarkable growth in such a short period of time is attributed in part to Viewpoint's integrated, cloud-based business management system, which provided fast access to performance information that drove highly informed decisions.

"It enabled us to rapidly address our organic growth needs internationally, close several acquisitions quickly and get them on line, and handle all the necessary consolidations," said Ben Ertischek, Viewpoint CFO. "We now have unlimited visibility across our many entities. For example, we have a director of finance in the UK, significant operations in Australia, and professional services people in multiple countries. They all are required to report through the system to me so I know how we are doing from a performance standpoint. We are a very modern company today."

"'WE'VE INCREASINGLY BECOME THE PERSON IN THE FRONT SEAT OF THE CAR DRIVING IT FORWARD,' HE SAID. 'IT MAKES LITTLE SENSE TO DRIVE AN OLD CAR WHEN THERE ARE MUCH MORE SOPHISTICATED ALTERNATIVES TO DRIVE INSTEAD.'"

Ben Ertischek
CFO
Viewpoint

Viewpoint continues to evolve as business events dictate. Like many other cloud-based software companies, the company is changing its business model to take advantage of subscription-based recurring revenue. "We have a multi-tenant architecture with multiple products from a delivery standpoint—some that are pure Software-as-a-Service, others on-premise, and a few that are sold to the customer but we host it for them in the cloud," Ertischek said. "Having a system that understands all these different ways of how we do business, and then getting things up and running quickly, is extremely important."

Such real time performance analyses were impossible using its former legacy system. "We had no real financial sense of where we were growing or not growing," he explained. "We just knew we were growing around five percent annually and were profitable. But, we couldn't figure out how to grow more because we did not have timely, accurate information to make bolder and more confident decisions. Today, we have what we need when we need, and are growing at an annual 40 percent clip and more."

Viewpoint no longer worries about taxing hardware upgrades, the pains of migrating from one system version to another, or even about security. "Our people access and input vital information and have connectivity wherever they are," Ertischek said. "We have no concerns over security. I'd rather have our people accessing a cloud-based system than getting what they need over our firewalls, not that our firewalls aren't state-of the-art."

The CFO provided a telling postscript why his professional role must lead the charge to modernize their companies. "We've increasingly become the person in the front seat of the car driving it forward," he said. "It makes little sense to drive an old car when there are much more sophisticated alternatives to drive instead."