9 Leveraging E-Business Opportunities for Finance

How CFOs and IT Can Join Forces to Create Value

Q&A with Jürgen Daum, Director Program Management for mySAP Financials

In the new world of e-business, questions are being raised about how financial organizations should best fit in. Clearly, managing for profit and value becomes more complex as profitability hinges more and more on intangible assets and new e-business models, both of which are complicated by an alarmingly high rate of change. CFOs are now enlisting the help of their IT departments as they grapple with the questions we pose here to SAP's Jürgen Daum, Director of Program Management for mySAP Financials, and a former CFO himself.

Q. Integrating cross-system supply chain management processes delivers cost-saving efficiencies and better control, coordination, and execution over the flow of materials. Can the same be said for integrating cross-enterprise finance processes?

Absolutely, because it's not just materials that flow up and down the length of your supply chain. Cash (in the form of payments, for example) flows too. And excess working capital, required by billing, payment, collection, and settlement processes, as well as related financial transactions, comes with a price. Bills cost money and resources to generate, resolve (when disputes arise), and collect. Managing and issuing payments to your vendors comes at a price, and borrowing money from the bank and other cash management and treasury activities also come with their own costs. So there are ample opportunities along the length of your "financial supply chain" to cut costs with e-finance activities.

Electronic Bill Presentment and Payment (EBPP) is one e-finance solution that can reduce the overhead associated with issuing invoices by as much as 70 percent. For many large companies, that translates into millions of dollars of savings per year.[1] On the accounts payable side, "payment factories" offer another avenue for huge cost savings. In Europe, you rarely see checks pass between firms; instead, companies rely on bank remittances.

Some of the larger, global corporations have taken this one step further by implementing "payment factories" that aggregate payments to suppliers on a worldwide basis, and optimize the routing of these payments through some preferred banks and financial service providers.[2] In so doing, they have dramatically reduced the overall number of payment transactions as well as cross-country payments. The result? Significant transaction cost savings and reduced bank fees.

[1] For more on EBPP, see the article "Electronic Bill Presentment and Payment As Part of the Financial Supply Chain" by Jürgen Weiss in this issue of *SAP Insider*.

[2] Customers have started to implement these "payment factories" as a private exchange using SAPMarket technology and mySAP Financials functionality. Such a private exchange receives payment orders from operational units in electronic format. Since they are linked electronically with financial service providers, or even with public marketplaces where they "buy" financial services, these "payment factories" or "payment hubs" provide these payment services for the entire enterprise on a worldwide basis in a very efficient way.

But as a former CFO, and now in my role as a technologist whose mission is to support CFOs, I can tell you that these cost-saving efficiencies are *not* the e-finance process benefits that pique my interest. It's the prospect of gaining a complete, unified perspective of all my financial and business activities — even those that take place outside the borders of my company. E-finance processes can integrate and tame an unruly heterogeneous systems landscape that includes both SAP and non-SAP systems, and in so doing:

- Optimize activities within the financial supply chain
- Support a comprehensive e-business accounting approach
- Enable advanced business analytics and strategic enterprise management

Through this integration, the CFO (and management) gains a unified perspective of *all* financial and business activities, and with that, the ability to *fully* measure and manage risk, reward, opportunities, and performance not only across internal functions, but across the entire business ecosystem.

Ultimately, Finance must be the hub where all these factors converge. Adding an "e" in front of long-standing business functions like SCM, CRM, and HR doesn't change the fact that Finance must remain the company's business integration hub for these practices.

Q. The role of Finance is to be the company's "business integration hub," to ensure that a company stays profitable and gets the return it needs to satisfy shareholders and other stakeholders. How does SAP support this charter in an e-business environment?

Once upon a time, you could look at a balance sheet and P&L for the essential information needed to run a business or make investment decisions. Those days are over. Today, management and investors need a much broader, keener perspective into both financial and non-financial issues, into tangible and intangible assets.

It's the task of the CFO to provide these insights across the entire business — even if it is based on a complicated systems landscape. mySAP Financials provides the platform to do this. It integrates the diverse systems that support a business into a seamless financial supply chain, and provides a consistent accounting view of it to support both external and internal reporting. Above this layer of integration, mySAP Financials offers tools to access and analyze all that data in a meaningful way, in order to support cross-functional decision support — for example, through predictive modeling for advanced strategic enterprise management (see **Figure 1**).

A CFO could look, for example, at the actual financial performance expectations of investors, which are already built into the company's actual share price. He then could analyze

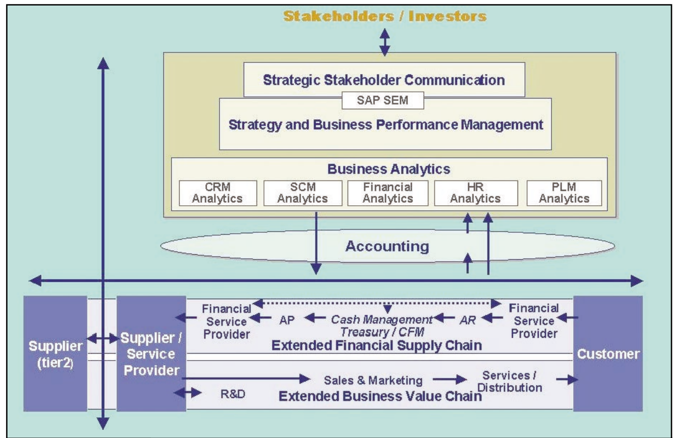

Figure 1 Horizontal and Vertical Extension of Financial, Controlling, and Management Processes with mySAP Financials

the data to determine whether a value gap exists between those expectations and the existing mid- and long-term plans of the company's management team. Through advanced modeling and simulation capabilities, he then could run simulations to assess the impact of certain market changes and internal activities, and to determine if and how the company can close that value gap.

SAP SEM, which is part of our mySAP Financials solution, supports such tasks, along with related business performance management processes such as outside reporting and communication. SAP SEM covers the entire strategic enterprise management process, end-to-end, including:

- Strategic analysis
- Strategy definition and its breakdown into strategic objectives
- Resource allocation and budgeting
- Financial consolidation
- KPI-based performance monitoring based on balanced scorecards
- Reporting to investors and financial analysts through an investor portal

SAP SEM even offers interfaces to an HR system to link personal scorecards directly to compensation. And we are now adding to mySAP Financials Business Analytics, a suite of analytic applications[3] that extends SAP SEM from the strategic to the *operational* level.

With these applications, it is now possible to control and optimize operational processes across functional borders by providing a comprehensive picture on customer-, employee-, product-, and business partner-related processes. This enables you to do things like track customer buying patterns, analyze customer profitability and customer lifetime value from a

[3] mySAP Financials Business Analytics include: Financial Analytics, Customer Relationship Analytics, Supply Chain Analytics, Product Lifecycle Analytics, and Human Resource Analytics.

financial perspective, and then link this information with the product perspective — in order to ultimately optimize supply chain management, product development activities, and HR management in a market-driven, outside-in approach.

One of my personal SEM favorites — something that I find has enormous value to CFOs and their teams — is that SAP SEM enables companies to cast and automatically consolidate *rolling* budgets.

When I started my career, I was asked to submit an annual budget at the end of one fiscal year for the following year. Many of you no doubt participated in similar exercises at one point or another. But fixed budgets don't work today. How can they? How can a static instrument that locks you into something you thought about last year be effective in a global economy with rapidly shifting market conditions and quick and nimble competitors?

Taking the "annual budget" — which is, in essence, last year's reality — and comparing it with actual revenues and expenditures on a monthly basis simply does not provide you with useful information to manage a business. It merely locks you into the past. On the other hand, rolling — perhaps monthly — forecasts and budgets turn the focus to current and future realities. Managers are forced to think ahead. For the company as a whole, it provides the possibility of realistic expectations for revenues and costs, and allows senior management to react before financial figures go into the red.

Budgets and forecasts are tools for resource allocation. Resource allocation needs to be consistent with strategy and prevailing business conditions. You have to manage strategy as a continuous process, so that it can be adapted to changing business conditions and resource allocation can follow suit. In this regard, you should approach strategy just as you do day-to-day operations. As you execute strategy-setting tasks again and again on a monthly or even weekly basis, you need a good strategic enterprise management system that allows you to do that very efficiently.

Q. How does mySAP Financials support this mix of newer, more adaptive forecasting approaches and traditional financial practices?

As you can see in **Table 1**, mySAP Financials offers a comprehensive suite of financial solutions that covers both the traditional finance and accounting processes and new analytic decision-support tools. Processes for performance management, covered by SAP SEM, integrate consolidation, reporting, analysis, simulation, and rolling forecasting/budgeting. These integrated management processes play a key role in a fast-changing market environment and help an organization nimbly adapt to changing market conditions.

With Strategic Enterprise Management, Business Analytics, and Accounting, CFOs can:

- Disseminate critical business information faster
- Provide analytic and decision support self-services for knowledge workers, managers, and executives (for example, through a Financial and Management Portal)
- Improve relations with investors, financial analysts, and other important stakeholders through improved outside communication and reporting

Financial Supply Chain Management, Corporate Finance Management (CFM), Real Estate Management, and Travel Management[4] help CFOs:

- Run their own operations (the Financial Supply Chain and CFM/Treasury) more efficiently
- Execute administrative tasks, like real estate management, travel management, and expense reporting, faster and with fewer resources.

In short, mySAP Financials provides a comprehensive set of solutions and tools to operate a company in a profitable way, generate long-term value, and leverage new financial service models and collaborative business scenarios — all in the interest of optimizing a company's financial supply chain and adding value to the business.

Q. What advice can you offer IT teams as they start to support CFO-driven initiatives?

The basis of every solid partnership is understanding the goals and needs of your partner, so I would suggest to IT teams that they understand this about the role of the CFO:

- ☑ CFOs are responsible for a company's ability to manage for short- and long-term profit, for managing its cash flow, for enabling it to leverage capital, and for maintaining adequate levels of funding. They also need to ensure that the company is able to generate enough cash flow to finance important acquisitions and initiatives and to reward shareholders. Good CFOs know how to do this from both a business and process point of view. If the IT team can bolster these initiatives with information technology and advanced analytic applications, it opens the door for all sorts of process and decision-support efficiencies.
- ☑ Increasing efficiency and reducing cost is always an issue with CFOs, especially in their own areas of responsibility. Because they are the ones who force their

[4] For more information on Travel Management, see the article "Intelligent Business Travel: SAP Travel Management" in this issue of *SAP Insider*.

	Features	Benefits
Strategic Enterprise Management (SEM)	▪ Strategic Planning & Simulation, Budgeting, Rolling Forecasting ▪ Strategy Management (based on the Balanced Scorecard) ▪ Business Consolidation ▪ Performance Measurement using Balanced Scorecards, Management Cockpit, or Value Driver Trees ▪ Stakeholder Relationship Management	▪ Monitor strategic success factors using Balanced Scorecards and benchmarking information ▪ Streamline financial consolidation and reporting processes ▪ Increase economic transparency through improved forecasts and efficient planning processes ▪ Improve investor relations through online self-services and efficient information system support
Business Analytics	▪ Financial Analytics ▪ Customer Relationship Analytics ▪ Supply Chain Analytics ▪ Human Resource Analytics ▪ Product Lifecycle Analytics	▪ Optimize operations and improve the economics of the business across functions ▪ Provide relevant and useful information that describes the actual business situation and supports better decisionmaking ▪ Identify and exploit hidden value potential in your customer base through CRM analytics
Accounting	▪ Financial Statements ▪ General Ledger & Subledgers ▪ Revenue & Cost Accounting ▪ Job & Project Costing ▪ Product & Service Cost Calculation	▪ Close books in record time through a high degree of online processing and tight but flexible integration with operational systems ▪ Prepare financial statements both for internal and external purposes — in a heterogeneous system environment ▪ Produce a complete, consistent, and accurate financial picture of the business
Financial Supply Chain Management	▪ Customer Payment & Settlement ▪ Collaborative Financial Processing ▪ Vendor Invoice Verification & Processing ▪ Bank Process & Relationship Management	▪ Increase your service level for customers through web-based bill presentment and payment services (e.g., EBPP) ▪ Streamline the financial supply chain, reduce working capital, and decrease costs
Corporate Finance Management (CFM)	▪ Management of financial (money and securities) transactions end-to-end, from the financial deal to accounting and risk management	▪ Minimize external borrowing through central inter-company cash concentration ▪ Effectively manage financial deals and associated risks
Real Estate Management	▪ Management of real estate-related processes ▪ Optimization of the real estate investment and leasing portfolio	▪ Optimize available real estate resources and reduce costs ▪ Handle leasing and rental activities more efficiently
Travel Management	▪ Business travel management (optimization of travel processes with direct links to SABRE and AMADEUS) ▪ Travel Manager's Marketplace for the procurement of travel services ▪ Travel expense reporting	▪ Reduce administrative costs associated with business trips through optimized travel planning and expense reporting processes

Table 1 mySAP Financials Overview

executive colleagues to constantly search for efficiency improvements and cost savings, CFOs are interested in leading by example.

- Another top issue of CFOs is to "close" faster, to provide critical business information nearly instantly, yet ensure the necessary consistency and reliability of the entire financial picture. CFOs are interested in automation and stability in accounting. When IT can help a CFO decouple accounting from operations (for example, through an e-business architecture) in order to avoid disruption of accounting processes through changes and business reengineering in operations — and at the same time maintain a high level of automation through integration — IT becomes a really important business partner for the CFO!

- Never underestimate the paramount importance of "capital marketing communication." I use this term to refer to the way a company communicates with its shareholders and with financial analysts. It ranks among a CFO's most critical tasks. It is common sense that failure to communicate sound reasons for a strategy or prospects for its future can cause shares to be devalued. But the CFO also must provide a fair view of actual performance, and must communicate even bad news in a reliable way. Otherwise, volatility of a company's share price increases, investor trust is damaged, and financial analysts assign a higher risk and higher costs of capital to investments in a company's stock. CFOs therefore need to be well versed in the economic ramifications of customer activities, internal operations and performance, and market trends and conditions, as well as in the tools to communicate with outside stakeholders more efficiently. For this they need to enlist the help of effective IT solutions.

CFOs are the guardians of a company's economic well being. They need the right tools to manage for profit and value. They will need to work closely with IT to do this. As I see it, IT and Finance share a common bond: neither views its mission as that of merely a service provider, but rather as a partner who actively contributes to the business strategy of the company. Both are experts in their fields and can contribute individually in a significant way to a company's economic success. And when they join forces, the whole is greater than the sum of its parts! The overall benefit for the company will increase exponentially.