SAP INSIGHT

DRIVING FINANCE PERFORMANCE
HOW TOP ORGANIZATIONS EXCEL

2006 ASUG/SAP Benchmarking Study

AMERICAS' SAP USERS' GROUP

THE BEST-RUN BUSINESSES RUN SAP™

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DRIVING FINANCE PERFORMANCE

HOW TOP ORGANIZATIONS EXCEL

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EXECUTIVE AGENDA

In the never-ending quest to lower costs and increase efficiency, financial managers are taking on new strategic roles within the enterprise. Charged with satisfying broader business requirements and meeting stringent legal and government regulations, they have assumed higher levels of responsibility and influence on overall company performance. Financial managers are striving to enforce stricter control processes to ensure compliance, offer insights into the internal and external business environment, and connect the business strategy with daily operations through performance tracking.

Regardless of industry or company size, financial managers are tasked with meeting greater requirements with fewer resources. To succeed, effective management of financial operations is a key component to achieve top performance while containing costs. To understand how finance managers in the top-performing companies achieve this goal, the Americas' SAP Users' Group (ASUG®) and SAP conducted a benchmarking study to answer the following key questions:

- How do top-performing organizations deploy their resources?
- How do the top performers use third parties to drive efficiency and effectiveness of services for their internal customers?
- Does standardizing and integrating applications lead to lower cost or more effective processes?
- To what extent are finance organizations as a whole adopting best practices today?
- Is there a correlation between organizational model, finance costs, and the adoption of best practices?

The study highlights four key levers impacting finance benchmark performance, as follows:

- **Company size (as measured by revenue) –** Judging by most efficiency metrics, large companies do better. For example, small enterprises with revenues of less than US$1 billion[1] represent only 20% of the companies with first-quartile finance costs (that is, the most efficient), but they represent a full 70% of those with fourth-quartile finance costs. In other words, it is certainly possible for a small company to have overall first-quartile cost structure, but size does help. Naturally, company size is not a lever a finance executive can influence to improve performance, but this metric is nonetheless crucial to understand the overall context of the performance indicators.
- **Shared services –** The second-strongest factor to impact organizational efficiency and effectiveness is something finance executives can influence – shared services. This organizational model is worth considering given these findings: on average, per function, the survey revealed almost three times lower costs and 19% higher best-practices scores for organizations that are using a shared-services model for their finance processes versus those that are not.
- **Outsourcing –** Outsourcing appears to be a well-kept secret. While outsourcing did lead to significantly lower cost and best-practices adoption for many transactional finance processes, the study found that outsourcing is not widespread. The average survey participant outsourced only 9% of its finance subprocesses.
- **Technology –** Systems integration and standardization is a fourth influential factor, though of lesser impact than the business model. When companies optimize the business model, however, technology becomes the most important lever to drive efficiency and best-practice adoption.

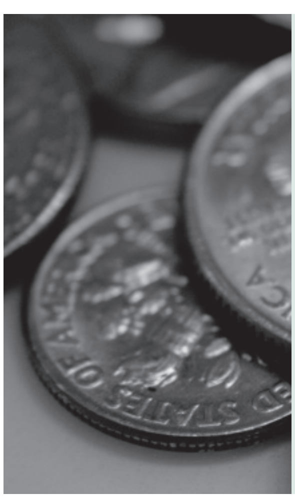
1. All currency in this article refers to U.S. dollars.

The study analyzed the following five dimensions of finance performance:

- Staffing levels
- Costs
- Organizational model
- IT deployment
- Best-practice adoption

While many of the metrics focused on measures of efficiency (cost, staffing levels, or cycle times), an extensive best-practices assessment compared participants' service excellence to both the efficiency and effectiveness of finance operations.

In short, the study found that in top-performing companies, managing financial operations is increasingly important in the enterprise-wide drive to reduce costs and increase profitability. These finance groups are developing more effective, efficient, and innovative methods to meet their increasing responsibilities and are evolving into strategic partners at the highest levels of the corporation, while focusing more on value-added activities and less on repetitive transactional activities. This *SAP Insight* outlines the results of the survey.



In top-performing companies, managing financial operations is increasingly important in the enterprise-wide drive to reduce costs and increase profitability.

ASUG/SAP FINANCE BENCHMARKING SURVEY

Benchmarking is one of the most powerful tools for initiating and sustaining continuous improvement. By accurately assessing performance and comparing the results to those of peers, finance organizations can achieve the highest level of efficiency and effectiveness. Armed with hard evidence to support decision making, finance executives can adopt best practices not only to close performance gaps with competitors, but to beat their own performance objectives.

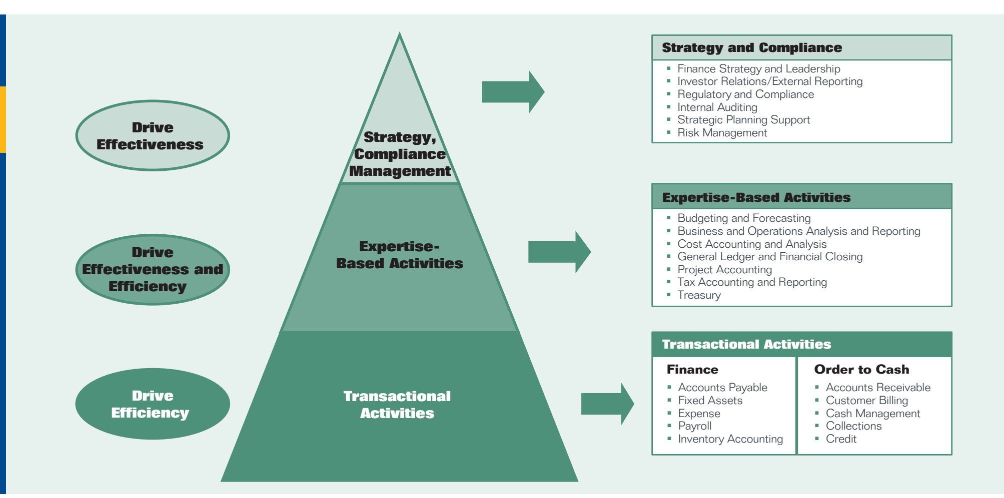
In the first quarter of 2006, ASUG and SAP conducted a benchmarking initiative to determine how top-performing organizations create a strategic finance function. This unique initiative provided a forum for SAP customers to compare notes on metrics and best practices and track new trends. The program sought to identify key performance drivers and establish a correlation to performance. Over 80 companies representing the following industries participated:

- Chemicals
- Consumer
- Engineering, construction, and operations
- High tech
- Mill products
- Oil and gas
- Pharmaceuticals and life sciences
- Public sector and higher education
- Retail and wholesale
- Service providers
- Telecommunications
- Utilities

Participant revenues ranged from less than $1 billion to more than $10 billion. The study analyzed 23 finance and order-to-cash subprocesses grouped into the following categories: transactional, expertise-based, and strategy and compliance-related activities (see Figure 1).

Figure 1

Benchmarking Study Model



The study analyzed the performance of these companies' financial operations based on over 50 quantitative key performance indicators (KPIs) in a number of different areas related to staffing and cost, organizational model, IT, and best practices. These included the following KPIs:

- Process independent, such as finance cost as percentage of revenues, and number of full-time equivalents, or FTEs, per billion dollars in revenues
- Process-specific, such as cycle time to close books, number of invoices processed per FTE, and percentage of payroll errors
- Degree of outsourcing by subprocess
- Degree of centralization by subprocess
- Shared services
- Application usage
- Degree of implementation
- Usability and adoption
- Importance and coverage of best practices

The survey also covered the level of best-practice adoption across the full range of strategic finance functions, with companies providing a self-evaluation for coverage of each best practice. The study then used companies' quantitative KPI results and qualitative best-practice coverage ranking to rate them against the other participants, and categorized each company as first quartile (the most effective or efficient "top performers"), average, and fourth quartile (the least effective or efficient "bottom performers"). Analysis of both quantitative and qualitative measures of effectiveness and efficiency allows inference of key findings and insights around drivers of top performance. Annual participation will allow companies to track their progress against internal and industry metrics on an ongoing basis.

Armed with hard evidence to support decision making, finance executives can adopt best practices not only to close performance gaps with competitors, but to beat their own performance objectives.

WHAT DRIVES PERFORMANCE?

Many drivers influence the level of performance a finance organization achieves. Naturally, finance executives can influence and manage some while others are completely beyond their control. For example, you can influence the organizational model or technology and processes deployed, but you can't control company size, geography, market factors, regulatory environment, or cost philosophy. This study quantifies the impact of four measurable and influential drivers of performance: company size, shared services, outsourcing, and system integration.

COMPANY SIZE: BIGGER IS BETTER

Several measures of company size influence performance. Company size as measured by company revenue is a key driver of finance cost. Finance organizations in large companies with greater than $5 billion in revenues have a clear cost advantage, with 37% lower average costs than those of small companies with less than $1 billion in revenues. For the overall benchmark, only 20% of the small companies achieve first-quartile finance costs, but 70% of the companies with fourth-quartile finance costs report revenues of less than $1 billion.

AVERAGE FINANCE ORGANIZATION COSTS

Revenues	First Quartile	Average	Fourth Quartile
Less or equal to $1 billion	0.49%	1.22%	1.95%
Between $1 billion and $5 billion	0.39%	0.98%	1.72%
Greater than $5 billion	0.44%	0.89%	1.34%
Overall	**0.42%**	**1.12%**	**1.86%**

The table above shows that average finance costs are about 1.1% per billion dollars in revenues. In organizations with first-quartile finance costs, these are 0.4% per $1 billion revenues. Likewise, the survey indicates that even within the same revenue band, cost can vary considerably – up to five times higher.

The use of technology and the organizational structure of the finance area drive the difference. Also impacting cost are the presence of a shared-services model, the level of centralization, and the type of IT landscape (the level of automation or degree of system integration).

NUMBER OF FINANCE FULL-TIME EQUIVALENTS PER BILLION DOLLARS IN REVENUE

Revenues	First Quartile	Average	Fourth Quartile
Less or equal to $1 billion	65	116	166
Between $1 billion and $5 billion	47	81	119
Greater than $5 billion	53	71	88
Overall	**50**	**95**	**148**

The same logic applies to staffing levels. The average company had 95 finance FTEs per billion dollars in revenues, while organizations with first-quartile staffing levels had only 50 finance FTEs per $1 billion revenues, as shown in the table above.

SHARING SERVICES LIGHTENS THE LOAD

Shared services as a business model has been around since the late 1980s and is now widely accepted as a way to reduce costs, improve effectiveness, and drive internal customer satisfaction. The question is not whether a shared-services model makes sense, but rather how to drive maximum value while reducing time to value at the same time.

The study found that, when managed well, shared services can improve process effectiveness while helping decrease costs. Among companies surveyed, shared services is used across almost half of the processes or internal organizations, on average, and leads to stronger performance – almost three times lower costs and 19% higher best-practices scores. The regression line indicates, on average, above-average costs for finance organizations without shared services (1.35% of revenues) and close to first-quartile costs with shared services (0.55% of revenues).

While a shared-services arrangement can pay off for large and complex organizations, this approach may not be applicable for firms that have only one business unit and a fairly centralized structure, or for a smaller firm that does not have the volume of transactions necessary to gain the associated efficiencies. Still, outsourcing provides obvious advantages for companies that are not as complex or large.

In addition to efficiency and effectiveness gains, a positive side effect of shared services is that, due to economies of scale, employees who were formerly tasked with transactional activities can spend more time on value-added or strategic work. This can provide a new level of incentives for employees and open up new career paths. Making use of shared services also enables companies to lower IT infrastructure costs and total cost of ownership since the hardware and software associated with these tasks is distributed to a broader pool of business units.

DEFINING SHARED SERVICES

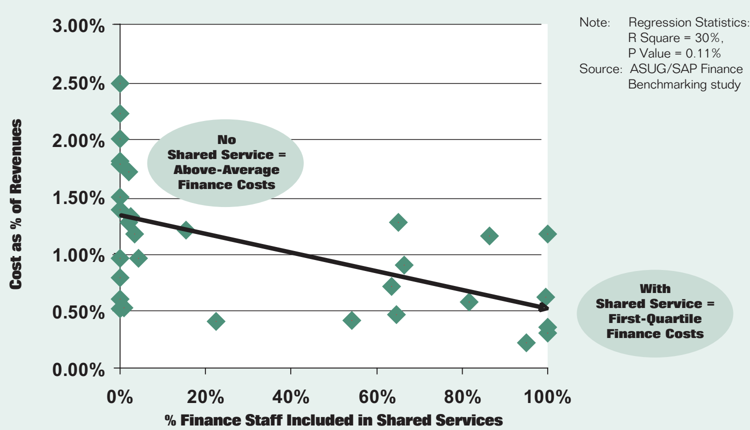
A shared-services unit provides centralized management and execution of specific activities on behalf of multiple users (such as business units or sites) using common processes and systems. A shared-services unit acts as a business partner for its internal customers, composed of different divisions and functions within the same company. Each customer agrees to the quantity, quality, and cost of services provided, and costs are charged out based on usage. Most companies actually formalize service agreements between the shared-services unit and its internal customers.

Shared-services units are generally evaluated on the following performance metrics:

- Cost
- Customer service (cycle time, percent of errors)
- Utilization and productivity
- External benchmarks

Figure 2

Shared Services – A Key Driver of Finance Efficiency



Note: Regression Statistics: R Square = 30%, P Value = 0.11%
Source: ASUG/SAP Finance Benchmarking study

WHOLESALE FOOD DISTRIBUTOR NETS ADVANTAGE THROUGH SHARED SERVICES

By implementing shared services and standardizing its processes and systems, one wholesale food distributor that participated in the study is able to achieve overall first-quartile efficiency compared to all other survey participants. Each of the company's more than 30 locations uses the shared-services model, has standardized processes, and runs on a single SAP® software platform. The mySAP™ ERP Financials solution is seamlessly integrated with other key business functions, such as procurement and warehousing. Overall, the company ranked first quartile in finance full-time equivalents (FTEs) per U.S. dollars (USD) in billions, with 38 FTEs per USD in billions for finance as opposed to the participants' overall average of 96 FTEs. Also, the overall company ranked first-quartile cost as a percentage of revenue in finance, with 0.35% cost as a percentage of revenue as opposed to the participants' overall average of 1.12%.

The business and operations analysis and reporting, typically one of the most resource-intensive finance subprocesses, illustrates the efficiency and effectiveness of this organization. This subprocess includes analysis and reporting on customer and product profitability, new product performance, life-cycle costing, customer and product mix, activity-based performance measures, and other areas. By using this model, the company has become very lean, with only 0.5 FTEs per billion USD in revenues, and costs of 0.01% of revenues. (Both are first quartile; averages are 10.9 FTEs per billion USD and 0.11% of revenues). The company also demonstrates high levels of effectiveness with 200 reports per FTE (first-quartile performance) with a one-day cycle time. The average is 60 reports per FTE; first-quartile average is 12.5 days per report.

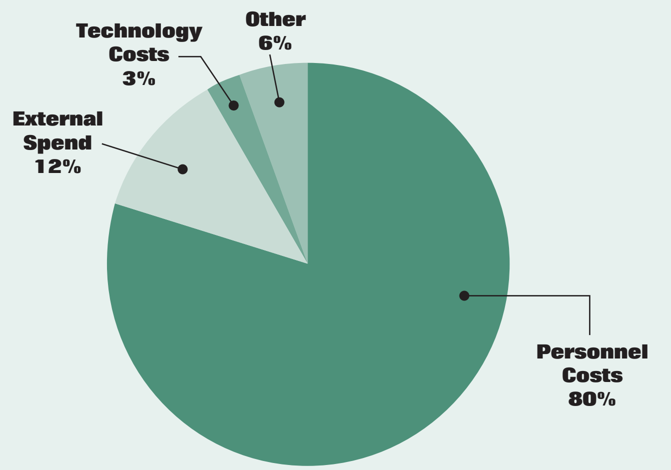
A number of best practices enable efficiency and effectiveness of the business and operations analysis and reporting subprocess. For example, the financial system provides historical and forward-looking views into financial and operational performance. Analytics allow for online ad hoc analysis and reporting along key dimensions. Analysis based on a single source of financial and nonfinancial information (an integrated data model) provides consistent data across all views of information to leverage internal and external information. Employing the right organizational model and the right technology ensures the company's best-practice performance.

OUTSOURCING LOWERS COSTS BUT IS RARELY USED

The large majority of finance costs are headcount-related. To reduce costs or to gain access to external expertise, some finance departments are outsourcing some business process functions, decreasing their average number of FTEs per billion dollars in revenue. This study found, however, that outsourcing is not widely used in finance organizations. The average survey participant outsources only 9% of its finance business process; but in many instances when outsourcing is used, it implies lower costs and better practices.

Figure 3

Breakdown of Average Finance Organization Spending



Companies that outsource normally approach it in stages, with transactional activities among the first to be outsourced and expertise-related processes as part of a second wave. Strategy and compliance-related activities are not typically outsourced. In addition, the motivation to work with a third party varies depending on the process type. Participants reduce costs by outsourcing transactional processes, but for expertise-related processes, access to skills, not cost reduction, is the driver.

COST REDUCTION THROUGH OUTSOURCING

Category	Average Cost Reduction	Best-Practice Adoption (% Score Improvement)
Strategy and Compliance	N/A – too few data points	N/A – too few data points
Expertise	Minimal reduction or higher costs	> 15%
Transactional	> 15% cost reduction	> 15%

Outsourcing strategies vary among industries and by company size. Order-to-cash functions are not widely outsourced today, except in the public utilities and energy sectors. In these industries, where there is a high volume of transactions and customers tend to get behind in their payments, many companies outsource both their accounts receivables and credit functions. When a customer account requires a collection procedure, the utility can intercede and concentrate on the collection, while the outside service continues to focus on the majority of customers that pay on time.

This study validates the position that the key to successful outsourcing is in retaining control over business processes related to the outsourced functions. To maximize the advantages of outsourcing, companies need to assess their core competencies first. What is best performed in-house and where would outside expertise make more sense? Then, by developing a clear strategy, they can identify and address related risks and advantages. Future efficiencies and governance will then rely on the service-level agreements attached to the outsourced functions.

SOFTWARE COMPANY STREAMLINES BUSINESS PROCESSES AND COSTS

To prepare for and enable growth, one software company completed a business transformation effort over the past five years, standardizing business processes and technology and streamlining the organization to reduce costs. These efforts resulted in strong benchmark performance in finance. Finance now has first-quartile staffing levels of 50 full-time equivalents (FTEs) per billion U.S. dollars (USD) in revenues versus an average of 96 FTEs per billion in revenues, and between average and first-quartile finance costs of 0.71% of revenues.

In budgeting and forecasting processes, the company has been able to reduce the cycle times for the creation of a forecast down to three days, versus a survey average of 13 days, through the implementation of a rolling forecast. This practice makes budgeting and forecasting a continuous-loop process where the annual budget is tied back to the most recent forecast. Finally, the forecasting system uses a central server environment to eliminate budget consolidations and manual reentry of data.

TECHNOLOGY: INTEGRATE AND PERFORM

Finance organizations face ever-changing requirements: new regulations, stringent and complex consumer privacy laws, and higher-quality information to support decision making – and the list continues to grow. To meet these requirements, top-performing companies employ technology solutions that integrate business and administrative procedures with their IT systems.

The study indicates that the use of an integrated enterprise resource planning (ERP) system by the finance function enables better performance. If a company establishes integrated processes, it can significantly reduce planning and reporting cycle times, and provide data for critical decisions much sooner to improve executive decision making. Equally important, it can reduce the cost of running its finance operations.

AVERAGE COST PER FULL-TIME EQUIVALENT AS RELATED TO SYSTEMS INTEGRATION

Metric	SAP® Software Only	Other[1]	Manual/ Spread-sheets
Avg. finance FTEs per billion dollars in revenues	81	97	106
Avg. best practices scores[2]	3.27	3.1	2.81

1. In conjunction with SAP software or a stand-alone software application
2. Ranked between 1 and 5

For example, the study reveals that companies relying heavily on manual processes or spreadsheets need on average more than 50% more time to prepare forecasts – 17.6 days versus 11.6 days for companies that rely on an ERP solution. In addition, if the company uses a rolling forecast, forecasting time can be further reduced to three to six days. Given these findings, companies indicate that moving forward, transactional aspects of the finance function will be shifted to the IT department. As a result, finance professionals will take over decision support and financial management activities, moving the finance function to a more strategic position.

The growing need for reporting transparency and global standardization, coupled with the need to protect sensitive customer information, requires increasingly sophisticated systems for capturing, formatting, and distributing information. With proper IT system support, companies can not only improve processes but also gain better data. Concentrating all major contact and operational data in an integrated software environment eliminates redundancies and opens new opportunities for analysis.

SKIN CARE COMPANY GLOWS THROUGH SYSTEM INTEGRATION

By standardizing processes and improving its use of technology, one global provider of skin and beauty care products that participated in the survey is able to achieve first-quartile performance in many subprocess areas. By leveraging the efficiencies of system integration, the company is able to achieve a high level of performance with minimal staffing levels in many finance subprocesses.

The company showed particularly strong benchmarking results in the general ledger (G/L) and financial closing finance subprocess. The study indicates a benchmark of 3.0 full-time equivalents (FTEs) per billion U.S. dollars (USD) in revenues, while the skin and beauty care company achieves an impressive 3.1 FTEs. The overall average for FTE per billion dollars in revenues in G/L and financial closing falls around 10. Top performers in the first quartile have costs as a percentage of revenue at about 0.02%, while the skin and beauty care company has just 0.03% cost as a percentage of revenue. The overall average in G/L falls at about 0.09%. Equally if not more important, the company is able to decrease closing times that approach first-quartile levels – 3 days for monthly books, 4 days for quarterly books, and 5 days for annual books.

The company leverages its technology to maintain a best-practice model. It integrates the G/L and downstream financial systems in such a way that account data is up to date and synchronized at all times. The G/L system manages and records accounting entries in multiple currencies and uses a global chart of accounts across the entire company. Finance professionals can easily access historical data to facilitate year-to-year comparisons. During the closing process, they can reconcile open items and intercompany balances in G/L accounts. In addition to these best practices, the company also employs standardized procedures to ensure short closing times.

FACING THE FUTURE

CFOs and finance professionals must deal with a wealth of new challenges, including many that are at the heart of the company's strategic goals – such as increasing shareholder wealth. The finance function has become pivotal to a company's health in the following ways:

- Balancing revenue generation against cost-efficiency
- Assessing risk daily
- Siphoning off risk into the future through sophisticated use of derivatives
- Managing earnings expectations and the need to create shareholder value
- Mitigating the deleterious effects of exchange-rate fluctuations
- Managing the company's compliance process to make certain it meets governmental regulations

It is difficult for the finance function to manage the earnings flow and shareholder expectations for those earnings, given increasing global competition and regulatory constraints. To achieve excellence in finance requires a greater attention to balancing operational efficiency and strategic effectiveness. The foundation for both is a great deal of analysis, data, and management time devoted to each, as well as more automation of nonstrategic, operational processes – thus freeing up staff to perform the more demanding work.

To achieve excellence in finance requires a greater attention to balancing operational efficiency and strategic effectiveness.

ABOUT THE SOURCES

ABOUT SAP

SAP is the world's leading provider of business software.* Today, more than 34,600 customers in more than 120 countries run SAP applications – from distinct solutions addressing the needs of small and midsize enterprises to suite offerings for global organizations. Powered by the SAP NetWeaver® platform to drive innovation and enable business change, SAP software helps enterprises of all sizes around the world improve customer relationships, enhance partner collaboration, and create efficiencies across their supply chains and business operations. SAP solution portfolios support the unique business processes of more than 25 industries, including high tech, retail, financial services, healthcare, and the public sector. With subsidiaries in more than 50 countries, the company is listed on several exchanges, including the Frankfurt stock exchange and the New York Stock Exchange under the symbol "SAP." For more information, please visit www.sap.com.

* SAP defines business software as comprising enterprise resource planning and related applications such as supply chain management, customer relationship management, product life-cycle management, and supplier relationship management.

ABOUT ASUG

ASUG is an independent, volunteer-run association that facilitates knowledge transfer among the community of SAP customers by providing customer-driven educational opportunities, professional networking, and a forum to influence the future product and service direction of SAP year-round.

ASUG maintains a unique position within the SAP community through its combination of highly focused education tools, access to both subject matter experts and SAP executives, and personal networking opportunities. As a result, members from any size company continuously solve their SAP-related business problems more efficiently and cost-effectively, realizing a significant return from their membership. For more information, please visit www.asug.com.

ABOUT THIS SURVEY

The ASUG/SAP Benchmarking and Best Practices program is open to participants on an ongoing basis. Companies are encouraged to participate annually to track trends, share best practices, and measure value realization. In addition to supplier relationship management and procurement, ASUG/SAP Benchmarking programs exist for several additional areas, including human resources, finance, supply chain planning, manufacturing, new product development and introduction, customer contact centers, and total cost of ownership. If you are interested in participating in any of these efforts, or if you would like additional copies, please contact:

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