Executive Summary Notes - September 2019

HOGGETT BOWERS

Making S.M.A.R.T. Simple

Today’s finance function is more frequently being asked to bring fresh thinking to the business against a back drop of advancing technology such as automation and AI, as well as being faced with increasing amounts of raw data. As a result, CEOs are demanding forward looking insight and guidance to establish priorities. Supported by technology, today’s CFO is increasingly expected to provide intelligence which enhances growth, innovation and market differentiation. Concurrently, finance operates in a world of increased governance and compliance which has increased the remit with no increase in budgets.

We posed the following question to CFOs at our recent event:

“As CFOs are tasked to maintain or reduce the level of cost in their function, whilst simultaneously improving the services and guidance provided to internal customers, many think this presents an unwinnable position for today’s CFOs. How are you tackling this position and improving the services and guidance to your business in today’s world?”

The conversation was started by **Thomas D’Aboville CFO, Pernod Ricard UK & The Gin Club.** Pernod have just published the best results they have ever had with growth close to double digits. He remarked that despite being highly profitable, there is still a large pressure on the business, partly driven by the presence of an activist investor who raises many questions of the business and of course, governance. “Governance is something we must drive from the finance department, whilst at the same time, our key focus is to drive impact and change within the business to make it more efficient and strategically coherent. Governance management should be ruled with simplicity but we still need to unlock resources to do it. A way to move forward is to pursue the overall simplification of our processes through digitalisation and automation. Digital is an investment and it requires investment to make things cleverer but also simpler. With pressure on business to reduce costs, how do we free up resources to simplify and automate tasks which in turn will reduce costs? Within Pernod, especially in the UK, we have outsourced some of our transactional processes to much more efficient companies. With this maturity, despite having a de-centralised business, where many things were done at country level, the efficiency created by outsourcing means everything that can be done centrally is done so by these outsource companies.”

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Our Chair interjected, “So might there be opportunities to come from this pressure on the finance department?”

Tony Bickerstaff, CFO Costain Group plc said, “We are a B2B customer environment. I think one of the roles of the CFO is to be clear with people as to what’s important to measure. We are introducing automation, we have just got our first robot – “Charlotte” who’s doing Purchase to Pay, but I see these things as ‘efficient’ as opposed to ‘strategically important’. We have a lot of people in our business who like to make things as complex as they possibly can, so finance has a guardianship and a leadership role and can determine what should be measured.

When I worked for a house builder we measured legal completions as a key metric. It then became clear that the number of completions is driven by the number of visitors to a site so actually the most important measure is visitor numbers. So if you increase the numbers of visitors who turn into purchasers, you end up raising the number of completions. We needed to measure the start of the house buying process and not just the end. We saw a complete change in behaviours associated with this – how we treated our visitors and ultimately how many visits converted into sales. Hence, getting what you measure right, clearly and strategically, is the leadership that the CFO must take. We’ve all seen the dashboards and just adding more metrics and things to measure does not always make things clearer.”

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John Stier, the CFO of Equiniti (a multi-national technology and payments specialist) told us, “You can put a huge amount of time and effort into technology and we spent a few million pounds in the business last year. You get more ‘bang for your buck’ by nearshoring, offshoring, process automation and driving the digital agenda with our clients. In my business, it is not hard to get capital if you have a good idea, but pressure comes from the fact there is no growth in the UK economy. We put a new billing system into the US and it was all about identifying where there was revenue leakage on contracts, indexing and those kind of things. We can be far more proactive on contracts with analytics and getting rid of the old system. We were told to deliver it but also measure it, so with the economy and environment, you have got to do the analytics and the cost work to prioritise what you do. There are opportunities and you have to keep innovating. You can’t stand still. Clients want it cheaper and quicker and this is common so you have to manage all of that. This is against the backdrop of an inflationary economy in the UK and 3-4% wage growth whilst there is not 4% growth in the economy. You’ve got to think about where you get the work done and if it is not adding value - then just stop it! CFOs have to be the bastion of that and most CEOs I have worked with, typically tend to be very good at markets, very sales orientated and they want me to go and sort all of that other stuff out. That’s fine and part of the partnership but if the CFO isn’t measuring the right things for the right outcomes, it often doesn’t happen.”

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Salar Farzad, CFO Gattaca plc (outsourced staffing solutions and recruitment provider) made the point that you need to keep looking at all the processes and not just within finance but across the business. “We’ve tried to empower the business to think about the next phase of development, for example, differential pricing. For clients the cost is really important and if you want that price you need to help us with digital initiatives. If you don’t want that, then fine we can be flexible… so educating everyone across the supply chain about doing things differently is key and if you do that, then pressure can come off finance as you are proving to the business you are creating value.”

Our Chair added “It is critical to prioritise what the business needs and who’s going to actually do it. It is easy to get carried away with all of the data available flowing into the business.”

Graeme Charnock, CFO Peel Ports Group, added, “Finance tends to cover gaps that arise particularly between what the business needs and who is going to do it. As a function, we tend to take on more than we should do and one of our initiatives is to develop the idea of ‘business’ men and women so that people actually take responsibility. When it comes to governance, in anyone’s functional role, there is an aspect of governance. It is not just up to finance and people need to realise that they have a role to play too.”

“The concept of internal customers is wrong.”

Tony Bickerstaff replied “I’ll take exception to one thing in your provocative topic and it is this - the concept of internal customers is wrong. One of the things we say at Costain is that we have one set of customers and they’re outside the business so you mustn’t think that we’re just providing a service. We are a part of the business and governance forms part of that business. That concept and principle is important. I encourage finance to go out and find their peers and talk to Group FCs in our customers. The more insight we have into our customers the better.

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Tony of Costain added “I work for a plc and fortunately report to the City only every six months rather than each quarter but we also have real time reporting requirements as a plc. It’s become real time but I agree with you that this drives behaviours. We are internally accelerating the pace of these timeframes because technology is changing behaviours as opposed to the external market. The Infrastructure market used to be one of five year cycles and now it feel like five minutes.”

In summary; a number of clear themes emerged about the balancing act that finance must perform against increasing amounts of data, real time reporting pressures and guidance it provides to the business in a world of “more for less.” Chief amongst them, is the need for finance to be the guardians of defining metrics which, when measured, underpin strategically important business aims and not allowing short term reporting requirements to eat up resources thus obscuring the long term view of the horizon.

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