Are you e-enabled to cope with the digital age?

Dr Charles Aird of Deloitte Consulting explains how outsourcing and e-commerce can help lighten the load in today's increasingly competitive business world.

> *"To thrive in the e-commerce world, companies need to structurally transform their internal foundations to be effective."*
>
> Ravi Kalakota and Marcia M. Robinson, *e-Business Roadmap for Success*

A challenge facing companies today is how to transform the finance function to help their companies prosper in the digital economy. Executives are now looking to expand the role of the finance function beyond traditional transaction processing and control to adding value to companies by becoming more of a strategic partner and actively identify business needs and opportunities.

The finance function is also faced with the challenges of globalisation, with the extension of business across multiple regions. There is the need to push critical financial and performance information to front-line employees to speed decision-making in rapidly changing markets. These employees are now in multiple time zones, transacting business in myriad languages and, in many cases, they are members of other firms.

Teaming up to offer better service

Companies have formed alliances to provide their joint clients best-in-class services. The traditional company value-added chains have morphed into value networks (or value webs) which increase the complexity of running a business.

If all this was not enough, they are also looking at ways to reduce the cost of providing the finance function. Companies continue to look to at the back office functions and processes as potential candidates for consolidation in order to gain efficiencies and cost reductions.

The internal finance organisations are coping with challenges in many ways:

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- implementing new technology and new operating models to solve the problems;
- utilising the same technologies that are driving change, the network and the collaborative tools it makes so readily available, to help achieve the transformation they must undertake; and
- calling upon external service providers to implement and deliver the financial services functions.

Just as companies have partnered with providers to deliver quality services to their customers, so, too, the finance function is teaming with external service providers to help them to meet the increasing challenges of doing business in today's environment.

The transformation to e-finance

Companies are automating back office support services in ways that move beyond simply processing transactions faster, or with fewer errors. Many are developing e-enabled shared service centres as the cornerstone of their e-finance strategy.

E-enabled shared service centres are virtual organisations that utilise networks and web-based technologies to connect people, processes, data and applications across value webs.

The finance processes, to a large extent, are based upon enterprise resource planning (ERP) packages which are not web based and legacy systems that are not connected. Taking the cue from the progress that is made in connecting to customers and utilising business-to-business (B2B) transactions, companies are now making a push for web-based integration of the back office processes.

Traditional businesses are rapidly progressing from bricks and mortar to a mix of bricks and clicks. They are moving beyond the traditional shared service centres that were time-consuming and costly to set up and maintain, which also required hundreds of people to move paper once they were implemented and in the end were not agile enough for the fast-moving e-commerce business environment.

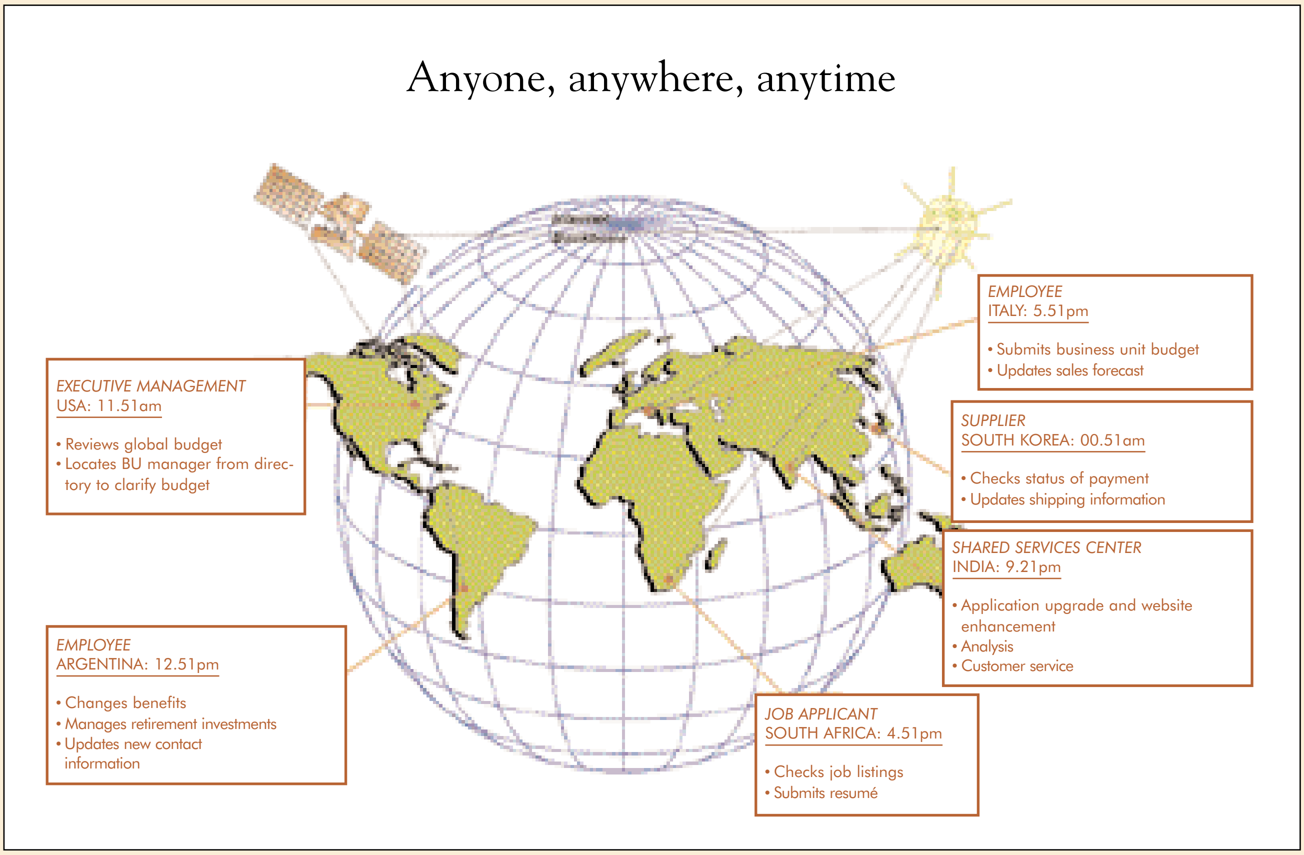
E-enabled shared services

In e-enabled shared services, the internet/intranet and web-enabled applications are used to provide access to financial information across value webs. The back office functions no longer need to have workers physically together in one location to achieve economies of scale. Through these virtual shared service centres, the information users' needs are provided no matter where they are in the world, what language they speak, or what time of day or night it is for them (see *Figure 1*).

Users can accomplish much of the work quickly and on their own time schedules, there are no paperwork transactions, and there is no need for a large accounts payable and billing staff.

With web-enabled shared services, the transactions flow seamlessly from start to finish. Authorisation levels are already built in, so the flow is seamless through the system if all the policies are met and the multitude of clerks required in the traditional model is eliminated.

FIGURE 1



Virtual reality

These virtual finance offices can be implemented as a high value proposition in a matter of months, not in the several years required to establish a traditional share services centre. They are also highly scalable, which is particularly advantageous for growing companies. Because the routine clerical work is eliminated in the e-enabled shared service centres, the roles of the staff remaining in the centres also changes. They are higher-level and more analytical in handling the exceptions and they must also focus on customer relations, providing the users more effective, personalised support.

Many companies are working at leveraging the new infrastructure. As part of their new e-finance, finance executives want to provide shared planning, budgeting and forecasting across partners in the value webs, providing performance management and financial analysis data to both internal and external users.

This is a crucial element because in today's business environment back office work is now on the front lines. Improved information and user experience is essential. The competitive advantages are people and how they are utilised. Advantages through superior technology cannot be sustained, they can only come from differentiation in how the people of the organisation execute.

An example of a process that has the significant payoff when offered in an e-enabled shared services environment is procure to pay. The hard savings come up front – about 70% of the savings come from the purchase order and 30% comes from the payment process. Through web technology, such services can be implemented within 90 days and the benefits are realised quickly.

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A self-service service

One factor in leveraging the infrastructure is to provide clients with self-service functionality by building portals which empower the users and make them more self-sufficient. The goal is to have personalised information 'pushed' to individuals through the portals on their desktops.

Employee self-service is not a new concept, but the web-based aspect of it is new. The challenge in implementing these applications is not necessarily only technology but altering the culture and the movement of information. This change requires the performance metrics to also be changed. More intangible measures such as customer satisfaction need to be evaluated, while, at the same time, the focus on transaction costs must be diminished.

Automated applications

Another factor of the transformation to e-finance is the deployments of more analytical applications – financial planning, analysis, and decision support – include financial consolidation, budgeting and planning, modelling and activity-based costing tools.

Finance and business performance measurement is a new category of analytic applications. These are cross-functional applications that enable a company to define the strategic goals and key performance indicators which measure progress towards these goals. They are also designed to distribute knowledge directly through the network to those who need it to make faster, better decisions.

Time and expense reporting is also being transformed. New applications are being used to automate the administration of employee travel expenses by collecting, reporting, routing, and tracking expenses after they have been incurred. Automated time and expense systems are being adopted largely to reduce the costs of processing expense reports manually. Management has better control over, and more information about, employee spending and operational costs.

Automating expense management yields better enforcement of company travel policy, faster processing times, compliance with international regulations and improved expense analysis.

Treasury management applications are used to automate cash, deal and risk management operations. The automation of cash management is one the most widely adopted practices. While most companies still manage cash manually, this is quickly changing. Deal management, which includes investing and borrowing funds, and may entail the implementation of trading controls, creation of new instruments, commodities management and debt/investment management, is also being increasingly automated.

The same goes for risk management, functions which deal with compliance with standards and regulations mandated by groups such as the US Securities Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB). Better management of a company's global risks result in cost reductions, increased focus on core competencies and compliant reporting.

As companies seek to automate treasury management processes beyond cash management, they will look for an integrated treasury solution.

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User- and company-friendly

One of the defining aspects of the new e-finance function is that it lets the end users complete the transaction. The people who need the information can get to it without an intermediary. The quality of the transaction is improved and clerical middlemen are eliminated.

As it evolves into e-finance, the finance function is an increasingly important part of the connected company. As businesses expand, customer intimacy is the recognised key to competing successfully. This need for customer intimacy has driven the current trend of IT spending to focus more on customer relationship management (CRM) initiatives, or front office applications, and less on traditional back office initiatives where finance played a central role.

The opportunity now is to position finance-oriented solutions as a bridge between the front and back office to help clients further integrate their entire companies toward serving customers.

Not only do the new e-finance departments provide improved service delivery and new functionality, they also do this cost-effectively. The e-finance departments are being leveraged to drive down operational costs. Companies are finding that the percentage of revenue that needs to be allocated to the finance function can be reduced as the new delivery models are implemented. Reported savings of 90%-95% are gained once e-enable shared services is implemented.

A new operating model for finance

The technology of virtual shared services has created the opportunity to separate and then re-connect the individual components of the finance function. These separate components can either reside internally or outside of the business, which gives companies the wide latitude in which components of services are provided internally and which services are outsourced.

Given the complex, unforgiving e-commerce business environment, it is easy to understand why companies are choosing to partner with external service providers to jointly deliver best-in-class financial services. Businesses want the benefit of the partners' best-in-class methods for managing and operating the various aspects of the finance function. In the hyper-speed digital economy, businesses do not have the luxury of time for developing capabilities in-house. More importantly, in the mega-competitive business environment, they cannot risk having in-house capabilities that cannot match the performance of the best-in-class providers. Leading companies wisely take advantage of partnering with the best.

Unlike past generations who used outsourcing solely to reduce costs or gain operating efficiencies, today's companies are using outsourcing to help 'transformationally'. Companies are looking to the external service providers to help them move quickly, and with no mis-steps, into the e-finance arena.

Executives today know that it makes sense to buy the technology expertise to offer self-service finance and not to dissipate internal resources in an area that is not a core competency.

These executives see it as a prudent strategy to pay for a third-party to handle the transaction processing so they can concentrate on the analytical and decision support functions that bring higher value to the organisation. To survive in today's competitive business world, all tasks must be done at the highest level of quality using industry best practices.

A combination of the new web-based technologies and operating model that relies on alliance partners to operate aspects of the business will together allow the new e-finance organisation to focus on business strategy as well as to provide increased service. ■

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