The New-Age CFO: Driver of Real-Time Business

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It's enough to stir every chief financial officer in their sleep. Big companies have spent immense sums this decade to digitally re-engineer their businesses—a projected $1.2 trillion this year alone, according to one estimate. Like a nuclear arms race, the investments are expected to soar to an average $1.5 trillion annually over the next four years[73]. That spending has not only kept some CFOs awake; it has turned many into key players in digital initiatives—executives who must diligently weigh competing and sizable demands on corporate funds.

However, there's an equally important reason for CFOs to be at the core of their companies' digital overhauls. It's that their department possesses financial and other information essential to running a business in real-time. The data that courses through the finance department—if digitized and analyzed with artificial intelligence—can help business leaders know daily or weekly which areas of the business need more capital and which need less to keep the company on track. What's

[73] International Data Corp., web page, April 24, 2019. Accessed Aug. 12, 2019. https://www.idc.com/getdoc.jsp?containerId=prUS45027419

more, that data can help that company detect and respond rapidly to changes inside and outside their companies.

This is a very different role for CFOs. It is about making them drivers of real-time businesses. CFOs who wish to step up the challenge will need to take up the charge of front-to-back office transformation. Some may need to start with a back-office digital overhaul to demonstrate their digital chops.

Real-Time Business Has Come to Finance

For years, finance departments in most big companies were a back-office function focused on controlling enterprise costs, while running an efficient department. However, the accelerating pace of business has forced many CFOs to digitally and markedly improve key finance processes.

One is the cash conversation cycle—the days it takes to turn inventory into cash from customers who purchase it. Another is financial closing, the month-end closing of the books. A benchmarking study of 2,300 organizations last year found the top 25% closed the books in less than half the time (4.8 days) of the worst 25%.[74]

And a third key process that many finance organizations are rethinking is forecasting and planning. This, of course, includes budgeting and capital allocation. This is a much longer-cycle process that requires business lines and functions to submit annual budget requests, and then for finance chiefs and their staffs to sort through them. A new wave of finance planning and analysis solutions (FP&A) promises to help CFOs get a better grip on their companies' short- and long-term capital as well as other resource needs.

Many CFOs have overseen major improvements in these and other finance activities. But from now through the next decade, a CFOs work will need to have an even greater impact on their companies. A key reason is that their businesses are increasingly operating in digital ecosystems—marketplaces in which digitally savvy competitors have swooped in from outside the industry's boundaries. These companies—

[74] APCQ study, as reported in CFO.com. Accessed Aug. 10, 2019. https://www.cfo.com/financial-reporting-2/2018/03/metric-month-cycle-time-monthly-close/

for example, Spotify and Apple in music, Facebook and Google in newspaper and magazine publishing, and Amazon in retailing, cloud computing services, digital advertising, and (most recently) package delivery—have changed the game, cost-wise, cycle-time wise, and customer experience-wise.

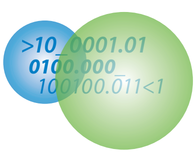
Consider marketing and customer service. Social media has accelerated the time it takes for problematic products and services to be publicized. Reputational damage can spread in minutes around the world to millions of customers/prospects when a key online influencer impugns a company's actions or motives. Marketing must be able to respond much faster.

Product development cycle times are shrinking fast in every industry, from aircraft engine manufacturing to appliances. Rolls-Royce aircraft engine embarked on a digital transformation initiative with the goal of reducing time to market by 50%.

Supply chains have become more digitized, in part to become more 'flexible' and streamlined, and in part to reduce 'shrinkage' from theft and other causes.

But this is not enough. There's a much bigger digital game to play here for CFOs. It's to help their companies stave off online competitors that could make a business model obsolete.

When the Digital Ecosystem Lets Digital Competition In



We all know how online retailers like Amazon have turned the economics of store-based retailing upside down; how digitally connected transportation service companies like Uber and Lyft have taken share from many taxi businesses; and how music, newspaper, and magazine empires have been dismantled by online media such as Google, Facebook, Spotify, and Apple.

But many other businesses are now under attack beyond the obvious ones. The global insurance industry is a case in point. Selling many insurance products today doesn't require a human touch. (Neither does delivering consumer banking services.) For example, car insurance can easily be sold today through car manufacturers. They should have an inside edge: knowing exactly how well (or not) customers actually drive. It is no surprise that Tesla Inc. launched its own insurance program earlier this year, asserting it would provide a lower-cost option to customers with good driving records.[75]

The old distribution network won't save the insurance industry. Only better service, competitive rates, and better marketing will. That's a lesson that the record stores, newspaper, and magazine publishers, in addition to many book retailers have already learned. Online distribution makes it easy to deliver digital products to customers; insurance, news, music and banking services are, in fact, digital products.

Few executives are better equipped than CFOs to help top management think through the short- and long-term financial implications of the new business models that are coming into play when industry boundaries vanish and digital ecosystems become the new structure. In fact, TCS research this summer on how more than 1,000 North American and European companies have organized for digital transformation this decade found CFOs were key in driving budgeting decisions in these initiatives. In 29% of the companies, CFOs helped drive budgeting for digital transformation, second only to CEOs (who played a budgeting role in 35% of the companies we surveyed).

Still, not enough CFOs are helping drive digital strategy development, this year's survey found. Only 10% were—a much lower percentage than CIOs (75%), production heads (53%), R&D chiefs (40%), and CEOs (28%).

How can CFOs play a much bigger role in digital transformation—now and over the next decade? By ushering in what I call front-to-back enterprise transformation. Those who do so will play a key part in turning their companies into real-time businesses.

[75] *Wall Street Journal*, May 7, 2019 article. Accessed Aug. 9, 2019. https://www.wsj.com/articles/tesla-plans-to-sell-owners-cheaper-car-insurance-11557221400

Front-to-Back Enterprise Transformation: The Basics

From TCS experience, CFOs who have been key players in their companies' digital overhauls stand out in three ways: they are extensively involved in developing next-generation business models; they embed finance professionals in key business functions and use data and analytics to help functional managers make better decisions; and they ensure technological innovation gets sufficient funding. Let's look at each one.

1. Developing next-gen business models.

Everyone knows that media companies like Disney and HBO have to transform themselves for the world of streaming video. Digital business model innovation is also rampant in financial services. Consider Apple's new credit card (to be administered by investment bank Goldman Sachs). For both companies, the consumer credit card is a whole new venture.[76] Many CFOs are playing crucial roles in such business model innovation. In a 2018 TCS survey of 689 senior finance officers in U.S. and European companies, 44% said a key way for them to drive revenue growth is getting extensively involved in new business model development.[77] The CFO of Koch Industries, a privately held, $110 billion company, is a prime example.[78] "The future is an exciting challenge for us, one that we readily accept," said Steve Feilmeier. "We're intentionally paranoid about every business we're in. We think that the future will dramatically change every business and no one is exempt." As an example, he cited the company's Georgia-Pacific unit, which makes bathroom tissues and towels. Feilmeier said there is a $60 billion market to service office and other building bathrooms, of which more than 25% of goes to labor. Much of that, he believes, could be "eliminated or redeployed to higher value-added tasks. We must be willing to cannibalize ourselves, because if we don't innovate ourselves out of a job, someone else definitely will." All to say, CFOs can be instrumental to business model disruption.

[76] Wall Street Journal article, Feb. 21, 2019. Accessed Aug. 12, 2019. https://www.wsj.com/articles/apple-goldman-sachs-team-up-on-credit-card-paired-with-iphone-11550750400

[77] TCS.com web page with CFO study. Accessed Aug. 6, 2019. https://sites.tcs.com/bts/cfo-consulting-digital-transformation-research-lp/

[78] Forbes article by Robert Reiss, April 24, 2017. Accessed Aug. 12, 2019. https://www.forbes.com/sites/robertreiss/2017/04/24/how-industry-leading-cfos-utilize-digital-to-drive-growth/#7799994a29c6

2. Embedding finance in key business areas and business decisions.

When their firms compete against digitally savvy startups, CFOs in established companies are at a distinct disadvantage: Early-stage companies don't have 'siloes' that exclude finance people from participating in pricing, marketing, and other consequential decisions. A key move to become more agile is placing finance professionals in functional areas: marketing, sales, pricing, product development, among several. One firm (Everest Group) refers to such people as 'agile ninjas.' Using analytics, these finance pros can then help functional managers make consequential and ongoing decisions on growth investments such as marketing campaigns, pricing decisions, new product development, and strategic partnerships. But they can't just be number-crunchers. They need the personal traits and skills to spur innovation in marketing, sales, R&D, and other functions in which they are deployed. These include empathy, communication, and instructive questioning. Finance pros adept at data and analytics could help every business function make better decisions.

Consider the marketing function. This would be a major change from most current marketing budgeting approval processes, in which marketing's request for an annual budget is scrutinized once every 12 months. Deeply embedding finance professionals who are highly trained in making analytics-based decisions is a best practice at a growing number of companies, particularly in digital businesses (which revolve around using digital data to make daily, and sometimes hourly or more frequent, changes in their websites). One caution: Finance professionals need to bring customer-centric (not just financial) metrics to these business functions. Customer experience measures such as Net Promoter Score and time to market are as important as traditional finance metrics like cash flow, capital adequacy, and expense ratios.

3. Funding tech innovation (especially in financial planning and analytics solutions).

Because they're charged with keeping tight financial controls, CFOs play a key role in ensuring that their company makes prudent investments in technology. TCS research on digital transformation and ecosystems found that in the most digitally successful companies this decade, CFOs have played a key role in establishing the budgets for these initiatives. CFOs should establish an enterprise budget for company digital transformation. **(See "How to Turn Finance Into an Internal VC for Digital Innovation.")** Then they should adopt a venture capital model to making investments: create cross-functional teams charged with developing minimum viable products or digital processes, which are then tested with real customers and refined based on their feedback. Those that 'stick' should get additional funding; those that don't, shouldn't. This will help get cross-functional buy-in. Funding is a key success factor; 45% of 200 executives at companies surveyed by Everest Group didn't implement their digital initiatives because of insufficient funding.[79] Ensuring the right level of investments go to key digital initiatives is crucial, and not just for current initiatives. CFOs must also play a longer-term game with tech investments. That's why they need to implement FP&A solutions that can help their organizations sketch out various digital ecosystem scenarios, plot out competitive moves, and shed light on the tech investments (both money and time) necessary to remain vibrant companies.

[79] Everest Group 2019 publication, "Reimagining the Enterprise Operating Model." https://sites.tcs.com/bts/wp-content/uploads/Everest-Group_TCS_Reimagining-the-Enterprise-Operations-Model.pdf. Accessed August 12, 2019.

How to Turn Finance Into an Internal VC for Digital Innovation

CFOs should consider the adopting practices of venture capital firms to fund internal digital innovation.

1. The first step would be creating a portfolio of digital transformation projects.

2. The second would be pooling capital across the company—divisions, product lines, and functions—to help seed cross-functional interest and potential digital breakthroughs (products and processes).

3. The third step would be to group talent, knowledge, data, and other resources that had been working in different corners of the organization. Having a nucleus of employees with digital and domain expertise who work together as a unified team (whether physically together or operating remotely) can markedly accelerate digital projects. (The beneficiaries of those projects would, of course, be the business functions, product groups, and business units that provided funding.)

4. In the fourth step, the digital team would conduct rapid protyping of new digital products and processes. The key is to test them quickly with customers, iterate them just as quickly, and generate new revenue early. That money can help the internal venture group begin earning a return on its investment.

Steered by the finance function, such as internal funding, a digital innovation model is designed to allow entrepreneurial energy, capital, and experimentation to flourish within a large organization.

Turning the Finance Function Into an Internal Venture Capital Group

1. Investment Portfolio	2. Pool Capital	3. Aggregate Resources	4. Rapidly Prototype
Create an Investment Portfolio of transformation projects that would impact the overall enterprise	Break siloes and pool capital across the entire organization to get investment across business units	Aggregate previously underutilized resources (capital, talent, knowledge, data, etc.) and previously distributed and untapped demand within the organization	Allow funding for rapid prototyping of solutions that benefit customers across the business

Transform the enterprise. New funding model encourages enterprise need for transformation and growth

Figure 14: How To Turn Finance Into An Internal Venture Capital Group

Driving a Real-Time Business

CFOs who can deploy their finance professionals in the three domains will get a leg up on driving their companies to operate as real-time businesses. What does this mean? A real-time business is an enterprise that can access up-to-the-minute data on its operating and financial performance and act rapidly on it in order to be more responsive to customers, employees, channel partners, suppliers, and other key stakeholders.

There's an important phrase in this definition: 'act rapidly.' This requires automating activities that can be automated so they can operate at the speed with which business must be conducted today. 'Act rapidly' also cannot be done through legacy enterprise systems alone. While they are essential, companies must supplement them with newer digital technologies that capture data in new places.

The best place to start with building a real-time business is the finance function itself. It's the adage of "Trim the bushes in your own garden first before you take on the town." Use what we refer to as a Machine-First™ model to transform key finance processes such as cash management, closing the books, and financial planning and analysis.

Then take it to the enterprise, but make sure the mandate comes from the top of the organization: the CEO and the board. The CFO alone can't make a company a real-time enterprise. It requires a mandate that forces business functions to go along. It must also be positioned as business—not tech—transformation, otherwise leaders of marketing, sales, R&D, and other functions will see it as automating the work routines they do today, rather than rethinking them altogether.

Importantly, it also requires changing company culture, which is the most difficult challenge. Getting people (with the assistance of AI and other technologies) to make decisions in hours or even minutes that used to take weeks can be jarring. And the skills, beliefs, and behaviors of finance people need to be upgraded as well. People management and communication skills become paramount, not just financial analysis and a facility with numbers.

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The new world of digital ecosystems and digital transformation presents every CFO with great new opportunities: to have unprecedented impact on their companies and their careers. Those who have risen to the challenge this decade have helped their companies make big strides in becoming real-time enterprises.