Finance Executives on the Value of Technology Investment for Midsize Companies

A report prepared by CFO Research Services in collaboration with IBM, provider of IBM Cognos Business Analytics solutions

CFO research services

IBM®

Finance Executives on the Value of Technology Investment for Midsize Companies

A report prepared by CFO Research Services in collaboration with IBM, provider of IBM Cognos Business Analytics solutions

Contents

About this report

CFO Research Services reviewed research it had conducted over the previous two years on technology investment, and compared results for midsize companies with those for larger companies. This research covered multiple electronic surveys of senior finance executives. The companies represented in the surveys ranged from the smallest midsize organizations (between $100 million and $500 million in revenues) to very large companies (more than $5 billion in revenues). The surveys covered a wide range of industries and were primarily conducted in the United States, although several surveys also included responses from companies based in Europe or the Asia-Pacific region.

Following its research review, CFO Research also conducted additional interviews to gain insights into the current concerns of finance executives at midsize companies. The following companies participated in the interview program:

- Argos Risk
- Durst Phototechnik AG
- Empower RF Systems
- Fulton Financial Corp.
- Great Western Bank
- Mueller Inc.
- Neighborhood Health Plan
- Old National Bank

"Technology, for us, is going to give us the most reliable and best return on our investment dollars, compared to anything else," says one manufacturing finance executive.

Executive summary

In January 2011, CFO Research Services (CRS) conducted a thorough data review of previous research it had completed within the past two years to provide the finance perspective on the challenges midsize companies are facing in deploying and using technology to support business analytics and growth strategies. We segmented previously collected data sets into midsize companies (revenues between $100 million and $1 billion) and larger companies (revenues greater than $1 billion)[1] and compared responses from the two segments. Based on our findings from the research review, we then conducted a series of interviews with finance executives from midsize companies in the health care, financial services, and manufacturing industries.

Our research program yielded the following primary findings:

- The recession caused midsize companies to intensify their focus on cash, profitability, processes, and risk. As economies start to recover, finance executives at many of these companies are now shifting attention from strict cost control to active performance management. Going forward, many finance executives at midsize companies are looking for ways to prepare their companies for new growth opportunities during a sluggish economic recovery and in more competitive markets.

- Finance executives widely recognize the value of technology investment to support management in guiding their companies and business units forward. As one finance executive at a midsize manufacturing company says, "Technology, for us, is going to give us the most reliable and best return on our investment dollars, compared to anything else."

- Finance executives at midsize companies expect their companies to invest more in information resources in order to improve capabilities and better support analysis and decision making. They are looking to make improvements across the board, including in risk management, performance monitoring, and planning, budgeting, and forecasting.

[1] Because different segmentation schemes for data capture were used in different projects, in some projects the $100M-$1B segment was not available. Where necessary, we used segmentation schemes of either $250M-$1B or $500M-$1B. The segmentation scheme used is identified for the surveys cited in this report.

- However, midsize companies in particular must deal with a "technology gap" as they reexamine their information needs and capabilities. These companies are more likely to still be relying on manual processes and spreadsheets for their information-management needs.

- Finance executives can be more involved in building the business case for IT investment to support their companies' pursuit of growth opportunities. A finance executive from a retail bank comments in his interview, "Now more than ever, we in finance are trusted business advisers to management."

- Some of the biggest challenges that companies face are around organizational resistance to change and the lack of an IT strategy or a shared understanding of the role of technology. Executives interviewed say that finance needs to work closely with management, end users, and IT alike to provide companywide education on the capabilities and use of new technology. Others note the importance of breaking through functional and technical silos so that IT resources are mapped closely with business requirements.

- Several interviewees stress the importance of working with the right technology partners to smooth implementation of new applications or systems and facilitate knowledge transfer to the user community within the company.

- In the end, interviewees note that the value provided by advanced information capabilities becomes self-perpetuating. One CFO at a manufacturing company says, "Implementing a BI [business intelligence] solution will take time, but my experience has been that, once you are able to provide people easy access to a little bit of information, they start asking for more—which ultimately sets a foundation for leveraging information to make better decisions."

Finance executives at midsize companies are starting to shift their attention from survival-focused cost control to growth-oriented performance management.

A shift from cost control to performance management

The good news: U.S. finance executives are growing more optimistic about the economic outlook for 2011, raising expectations for continued growth in capital spending and earnings and for improved job growth. In the 4Q 2010 version of the Duke University/*CFO* Magazine Global Business Outlook Survey, half of U.S. finance executives said their optimism has increased since the previous quarter, and earnings are expected to rise nearly 20% in the United States over the course of the next year.[2]

Despite continuing concerns about the consumer sector and price pressure, finance executives indicate that their companies are acting on this improved outlook by boosting their budgets. According to the latest Duke/*CFO* Magazine survey, U.S. finance executives expect to step up their capital spending by 9% in 2011, research and development by 4%, and advertising by 2%. Half of U.S. companies said they will begin to spend accumulated cash, with two-thirds of them using the cash to increase capital spending and one-third saying it will go toward acquisitions.

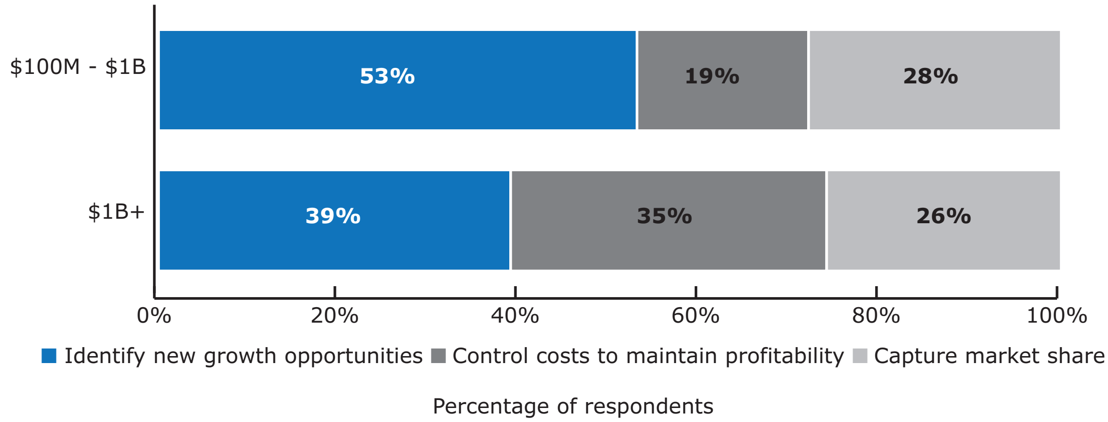
In this environment, finance executives at midsize companies are starting to shift their attention from survival-focused cost control to growth-oriented performance management—more so than their peers at larger companies, as revealed by a review of other surveys of finance executives conducted by CFO Research Services over the past two years. In one survey, 60% of finance executives at midsize companies (with revenues of between $100 million and $1 billion) expected that their companies would be likely to find more new opportunities for growth in the coming recovery, compared with the last period of economic expansion. These executives were changing their mind-set, and their management strategies, from simple survival to preparing their companies for renewed growth in the anticipated, although protracted, economic recovery.

In a different survey, slightly more than half of the respondents from midsize companies said that their companies would primarily seek to pursue new growth opportunities. In contrast, respondents from the larger companies (with revenues of more than $1 billion) were about twice as likely as those from midsize companies to say that cost control would remain their priority following the downturn. (See Figure 1.) To gauge the implications of this difference in outlook for technology investment at midsize companies, we reviewed a

[2] The Duke University/*CFO* Magazine survey aggregated responses from 848 finance executives from a broad range of global public and private companies about their expectations for the economy. The research has been conducted for 59 consecutive quarters, making it one of the world's largest and longest-running surveys of senior finance executives.

Figure 1. Midsize companies appear poised to shift their attention to pursuing new growth opportunities.

Over the next two years, my company primarily will seek to…



number of surveys completed within the past two years and interviewed senior finance executives at several companies in the manufacturing, banking, and health care industries.

Our research shows little indication that the need for more and better information for management decision making has diminished as the economy starts its slow turnaround. If anything, it is growing as midsize companies, in particular, start thinking about how to adapt to a different economic and competitive landscape. We found that at least a portion of the anticipated increase in capital spending revealed in the Duke/*CFO* Magazine survey is likely to be applied to improving information capabilities at midsize companies.

At the same time, it remains unclear whether the recession has induced long-term changes in markets and in businesses, and in our research, finance executives remained cautious, even if more positive, in their outlook. Mark Lack, the planning and financial analysis manager at Texas-based building-products manufacturer Mueller Inc., notes, “There’s been a resetting of [our] industry, and things are not going to go back to where they were any time soon.”

Both in the surveys we reviewed and in our interviews, we found that making better use of technology was frequently at the top of the agenda for many finance executives. A number of the executives we interviewed pointed to their companies’ continued commitment to investing in technology improvements as key to their ability to manage through the bad times.

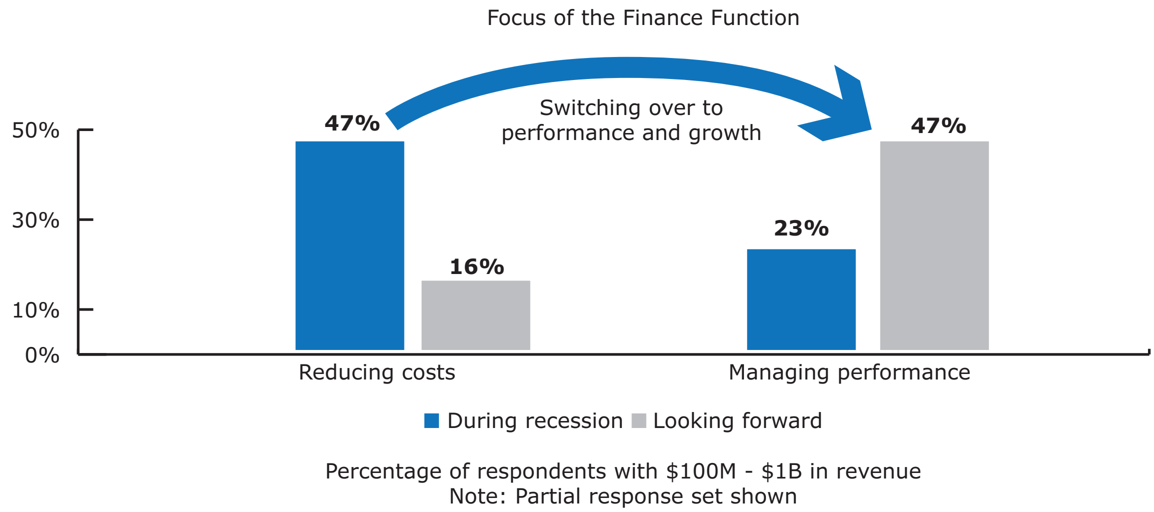
For example, Mueller has a unique business model in which it markets steel building products directly to the users of those products, for the most part bypassing the contractor segment. In that way, Mr. Lack believes, Mueller has its finger more directly on the pulse of the consumer. He says, “Our CEO has always said that there are very few things you can choose in business, and one of the few things you can choose is who your customer is. We’re customer-requirements-driven. For Mueller, every decision that gets made is by how it’s going to benefit the customer. So, when we leverage technology, it’s because we see some customer value.”

Indeed, the economic crisis served to starkly highlight the importance of having more information, more frequently, and in greater detail. The downturn increased the urgency with which management demanded information—in a CFO Research survey, 70% of respondents from midsize companies said that economic uncertainty during the downturn increased the frequency with which they reviewed and adjusted profitability measures. Nearly a quarter (23%) of finance executives at midsize companies reported that they were reviewing profitability “much more often.”

Mr. Lack comments on the greater importance of having the ability to manage information effectively: “Where it used to be a luxury, now it’s a necessity. When times are good, times are good. But when times are bad, you start digging for every piece of information you can. And it helped us to manage through the recession and remain profitable during that time—not at the levels that we’d seen before, but still profitable when the rest of our industry was suffering huge blows.”

Our research indicates that, as the economy starts to improve, midsize companies are likely to shift their focus from cost

Figure 2. Midsize companies are switching focus from cost containment to performance management.



control to performance management, in anticipation both of increasing growth opportunities and of increasing competition. In a CFO Research survey, about half of the finance executives from midsize companies said that their primary focus during the downturn was cost reduction. (See Figure 2.) And in a different survey conducted during the recession, 60% of the respondents from midsize companies said that a performance shortfall caused them to make substantive changes in their financial and operating plans. Now, as markets start to show some movement toward recovery, about half of the finance executives from midsize companies indicated that they expected to focus primarily on performance, instead of cost.

Finance executives recognize that success in this "new normal" will depend just as much, if not more, on their companies' ability to collect data efficiently and put it to use effectively. "As we're going into recovery," Mr. Lack comments, "our desire for data has not subsided. There are still always more questions that are being asked and more ways of presenting the information we need to drive the organization in the direction that we want to go."

Craig Berkeley, budgeting and forecasting manager at Old National Bank, notes that, like Mueller, his bank had already made substantial investments to upgrade its information systems during the downturn. Now, he says, it will be critical to keep the momentum going: "We're constantly refining and improving our information and doing more with what we have; we're leveraging our investment more. We will continue to spend people's time and our resources to improve our information because I don't think the banking business will ever go back to the traditional way of doing business. It's going to be more competitive. There's going to be the need for quicker, faster, better, more valuable information. So it's more important than ever that we continue to take the bank down this road."

In other companies, the renewed focus on performance management turns the spotlight on new information gaps that are the next priority for finance executives. For example, in the financial services industry, the economic crisis served to highlight the need for more-detailed risk analysis and management. Charles Nugent, senior executive vice president and CFO at Fulton Financial Corp., says, "Even when the economy turned down and affected our earnings along with everybody else's, we still invested in technology. Since the downturn, we certainly can determine the risk that exists better than we have in the past. But we need even more granular information on the risk of our loan portfolios now." Kevin Roadnight, the CFO of Great Western Bank, makes a similar observation. "As a lot of institutions have," he says, "we've tightened our underwriting criteria and demand a lot more information from potential borrowers."

But Mr. Roadnight is not satisfied with stopping there. As with other executives we interviewed, he takes the long view of the need to continually develop and improve his company's information capabilities: "The ability to run your core business requires a certain level of information. To then take your business to the next level requires a lot more information. We're investing a substantial amount of money and a dedicated team to build out a business-intelligence platform, so that we can really understand our customer segments, our customer profitability, and be able to slice and dice line-of-business profitability as well as regional profitability and [demographic] profitability."

As at Mueller, Great Western views its technology investment as critical to maintaining its customer focus. Mr. Roadnight continues, "I think the most important thing is to make sure that we are responsive to our customers' needs, which goes [beyond] just the ability to generate appropriate product suites. Our customers' demands are going to be changing significantly. We've seen changes in customer behavior and expect that to continue, so being able to have a platform that supports that is really a priority. That's an investment that we are very well aware that we need to make to be able to compete."

Mr. Nugent at Fulton Financial agrees on the importance of continually seeking out improvements in information capabilities: "I think we have a lot of information on our customers right now, but we are constantly [looking] for more information moving forward. We always want to know more about households and how they deal with us, what accounts they have, and their profitability." He expects his company will continue to spend "more and more time, money, and attention on our technology and systems. It's not only to get information, but to make us more efficient and more competitive."

Mr. Nugent concludes, "Technology is the big equalizer"—allowing smaller and midsize banks, for example, to be more competitive with larger organizations and pursue growth aggressively. In other cases, advances in technology can even drive dramatic changes in a company's business model and value proposition. For example, at the North American division of Durst Phototechnik AG, Tim Saur, PhD, the vice president of finance and operations, foresees the day in the not-so-distant future when advances in monitoring technologies will transform the way this printing-equipment manufacturer structures its service contracts, as well as its service workforce. (See sidebar, "Changing the business model through automation.")

Whatever path you choose, notes Mr. Berkeley at Old National, at the end of the day, "you have to do better than what everybody else does with the limited resources you have, so giving senior leaders the best information that they could have to make decisions will give you the edge that you need to be successful." Or, as Mr. Lack says, "Technology is going to give us the most reliable and best return on our investment dollars, compared with anything else."

Changing the business model through automation

In some cases, advances in technology can direct a company toward changing its basic business model and value proposition. Durst Phototechnik AG is a manufacturer of large-format printing equipment in the retail and industrial space. A business-to-business company, it makes and sells the equipment used to produce the oversize signage that might be found in a higher-end mall or in stores in midtown Manhattan, for example.

As with many equipment manufacturers, service contracts are an important part of the business, according to Tim Saur, PhD, who is vice president of finance and operations for the North American division of Durst. Mr. Saur effectively serves as CFO and COO, as well as co-CEO, in an unusually flat organization that operates with a great deal of autonomy from its European parent.

As Mr. Saur explains, "We really are a service-oriented company, and I spend a lot of time on our service business. It's important because, if you don't have good service, you're not going to sell printers." For that reason, says Mr. Saur, "we're always seeking best in class."

Mr. Saur goes on to explain the implications of technology use for his vision of the service business:

"During the recession, I heard a lot of talk from other companies about cutting costs and cutting service people. At Durst, we think that is a mistake, and we did not go that route. We looked at it differently and asked, what technology can we use to get the information from our printers to the smartest people in the company as fast as possible? We used a lot of remote monitoring and have a lot of data coming through from the service entity. That affects our time on site, travel costs, warranty costs, and things like that. We need the information to decide where to send people, and when to send people.

"The data itself has driven us to a much more technology-focused approach. Now, we're closing about 60% of all of our calls without an on-site visit because of the information we can collect remotely. We can get the customer up quicker and save money on both ends.

"But it's not just the data from remote monitoring coming through that drives our decisions. It's also the analytics that we've been able to do on things like the amount of time it takes to get to a customer site and the cost of a service call. In the end, basically, our customers don't care whether we're on-site or not. They just need that printer up and running.

"So, for example, the data has allowed us to figure out what the best cities are for where to staff people, and we can base hiring decisions on those sorts of analytics—hiring the right people in the right places. We've been able to do that rather than cut people; we began to hire fewer people and use more technology-based solutions, and just make sure we get the information to the key people at the right place. This model actually comes out of a lot of the work we did in accounting to better understand what our costs are."

The North American IT group reports up to Mr. Saur, and he notes that Durst uses both a relatively small in-house group and outsourced IT services. The analytics needed for Durst's service business required a degree of customization in order to be "Durst-ready," as Mr. Saur puts it, so the North American group developed its own service tracking system in-house on a Domino-based IBM platform system. The system developed under Mr. Saur is now used worldwide through the parent corporation, but remains housed and maintained out of Rochester, New York.

To get to the next level of service delivery, says Mr. Saur, Durst is working on moving the tracking system to a cloud-based environment and improving the communication from the printing equipment throughout the world. As Mr. Saur explains, "We want to improve the 'push' technology that we have on the printer. Today, we can pull log files to see what's going on. From my standpoint, however, the problem with pulling is that it's still reactive. Our technology moves today are to eventually get to predictive service. That is going to require better 'push' technology. In other words, the printer needs to be able to tell us, 'Hey guys, I think I'm going to have a problem in a few hours.'"

Durst is now partnering with a third-party firm to deliver a more advanced remote-monitoring capability. The basis of predictive service is being able to determine the key situations that lead to preventive issues, so Durst is analyzing historical log files to identify the conditions that led to an issue, whether it was an hour before or two days before. That analysis will lead to what Mr. Saur expects will be "a pretty detailed algorithm" for monitoring the log files and flagging potential service conditions.

Advances in technology can drive dramatic changes in a company's business model and value proposition.

But Mr. Saur also notes that, while the technology is needed to enable this transformation of the service business, "there's a psychological side, too. Today, there seems to be a culture throughout the service industry of a reactive mentality. We need to change that culture to be able to monitor 24/7. The culture needs to change along with technology, so that the culture doesn't restrict the capability of the technology. [Moving to a predictive service model] is good in one sense in that it will reduce the travel for our service people—some of these service guys have a pretty rough life right now—but on the other hand, it also demands constant attention." It's that kind of transformation, from a traditional, reactive mind-set—"fix it when it breaks"—to a predictive, proactive service model driven by information and analytics, that Mr. Saur believes is the future for his company.

Investing to close the technology gap

However, to gain that edge, midsize companies may need to reexamine their information needs and capabilities to support their preparations for new growth. As shown in Figure 3, midsize companies are more likely to still be relying on manual processes and spreadsheets to collect, analyze, and report on the information management needs for effective decision making. In these CFO Research surveys, companies that defined their information systems as primarily manual still relied on widespread use of spreadsheets and manual inputs; they had few, if any, enterprise software applications. Those automated for basic functionality or partially automated might employ technology for such tasks as aggregating costs and generating management reports, but typically had little or no real-time access to profitability data for end users. In some of these cases, the company would still be relying on manual intervention to aggregate and conform inputs from multiple, unconnected systems.

Only among the handful of companies that described themselves as highly automated was technology widely used for collecting and analyzing data, providing dynamic or ubiquitous access to granular profitability data and allowing users to take advantage of enterprisewide, integrated systems.

As finance executives explored every avenue for managing through a recession, those from midsize companies found they were not as well equipped to cope as larger, more established companies. Whereas half of respondents from companies with more than $1 billion in revenue reported that good process execution helped them make it through the bad times, only 35% of respondents from midsize companies (with revenues between $250 million and $1 billion) thought the same thing. In fact, one in five respondents from midsize companies acknowledged that poor process execution hurt their companies during the recession.

Figure 3. Midsize companies lag their larger competitors in their use of technology.

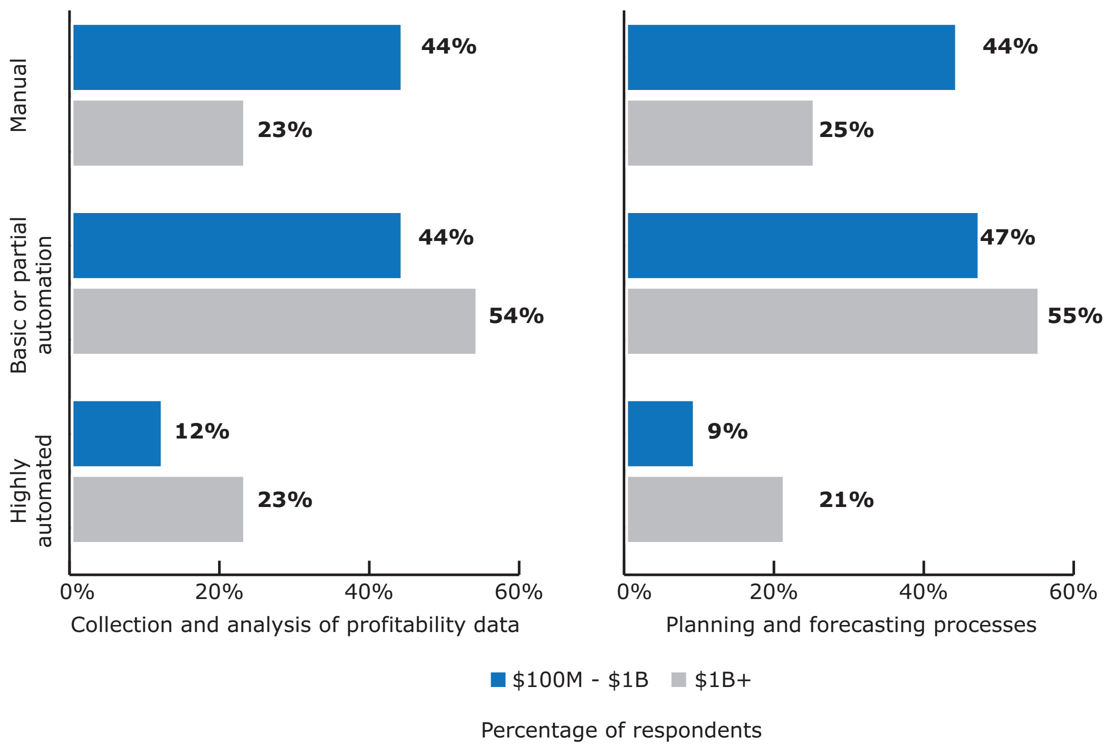
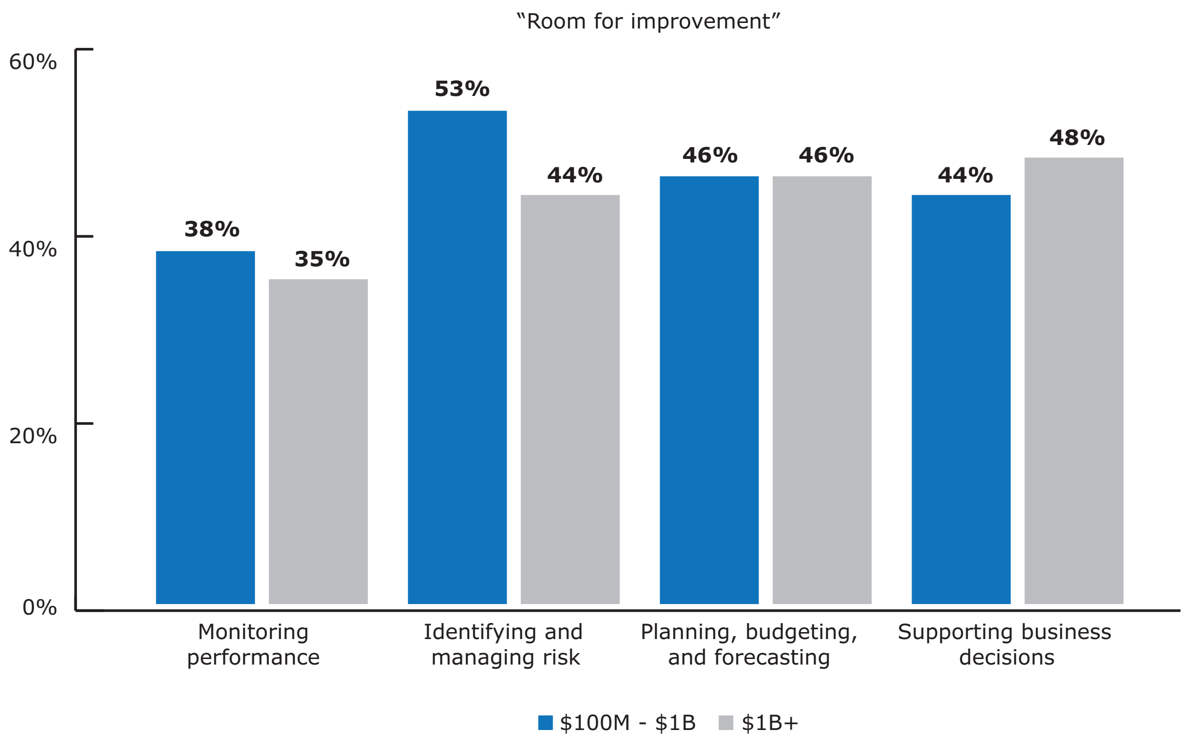


Figure 4. Companies of all sizes see room for improvement in their use of technology.



Percentage of respondents
Note: Partial response set shown

In a separate survey, about half of respondents from midsize companies (with revenues between $100 million and $1 billion) said that, in order to manage business performance more effectively, their companies were "very likely" to pursue process and systems improvements over the next two years in forecasting and planning and in performance tracking and reporting. Finance executives at midsize companies expect their companies will invest more in information resources in order to improve capabilities and better support analysis and decision making.

No single area stood out as more of a priority among the companies surveyed. (See Figure 4.) For midsize companies, the ability to manage risk better garners slightly more attention, but the finance executives surveyed gave nearly equal priority to the need to use technology better for supporting business decisions, for monitoring performance, and in planning, budgeting, and forecasting. In fact, in this survey, larger companies were just as eager as their midsize competitors to seek improvements in information capabilities across the board. The midsize companies, however, may have a longer road to travel to achieve those improvements, given where many of them are starting from in terms of their relative lack of automation.

To start, simply having the capacity to handle large volumes of data is a basic need. Neighborhood Health Plan is a Boston-based health maintenance organization that has grown over the past two decades to more than 225,000 members. Its CFO, Charley Goheen, notes, "To be a successful customer-service-focused company, we've got to make sure that we're paying the claims correctly the first time and accurately, and we've got to get the bills out to our members and to the state. We process a tremendous number of transactions—every single member has multiple physician visits, outpatient visits, and occasionally inpatient visits. We are very dependent on being able to process those transactions in a timely and accurate way, and then of course we need all of that information from all of those claims in order to appropriately price our products going forward."

For these reasons, Mr. Goheen says, "technology plays a huge part in our business. The vast majority of our claims are coming in electronically and being auto-adjudicated with nobody touching them at all. And we're in a pretty low-margin business; typically, we try to make 1% or 2% margins, so you don't need to be off a lot to have a problem. We're very dependent on getting accurate information and being able to build the financial forecasting models to estimate what our expenses are going to be out into the future."

Asset-based businesses are just as likely to rely on technology to give their management the information and the flexibility needed to drive companies forward as the economy, and their businesses, recover. Mr. Lack at Mueller says, "You have to be able to be nimble enough within an organization to produce at whatever levels the market happens to give. Ideally, we're not going to see these black-swan events—if we see, say, a 10% difference on either side, that's ideal. But we're prepared in case we see it go either way. We enhanced our information distribution during the bad times, and our information systems have paid for themselves many times over now because, by having this information, we were able to see [the market change] as it was happening."

A financial analysis and planning executive says, "By having more people with eyes on the information, you've got more people who can make better decisions."

The value of that investment can only grow over time, in Mr. Lack's opinion: "In this economy, as we're coming out of the recession, we now have this incredible information system that helps us to make very quick and important decisions when things are at their worst versus having to go with a gut feel—which is not a bad thing, but it's not data-driven. Now, at Mueller, just about anybody who has access to a computer has some type of access to this information. We don't want to hide information from people, and we don't just feed answers to people. We feed information to people so that they are empowered to make decisions. By having more people with eyes on the information, you've got more people who can make better decisions. In any economy that you're in, you're going to be better for that."

Adopting flexible planning and budgeting

Finance executives in our research recognize the impact that technology investment can have on the profitability of midsize companies, in particular. In one survey, three-quarters of the respondents from midsize companies (with revenues between $100 million and $1 billion) said that changes in their companies' IT systems and applications could help them improve profitability, with nearly 30% believing that the improvement could be substantial. (See Figure 5.)

A large portion of technology investment may be directed toward upgrading planning, budgeting, and forecasting capabilities. As shown in Figure 5, even more respondents from midsize companies (85%) said that changes in their planning and forecasting systems and processes would help them improve profitability. In a different survey, more than half (56%) of the finance executives from midsize companies (with revenues between $250 million and $1 billion) rated their companies' ability to produce forecasting and budgeting information as "very important" to the companies' success over the next five years.

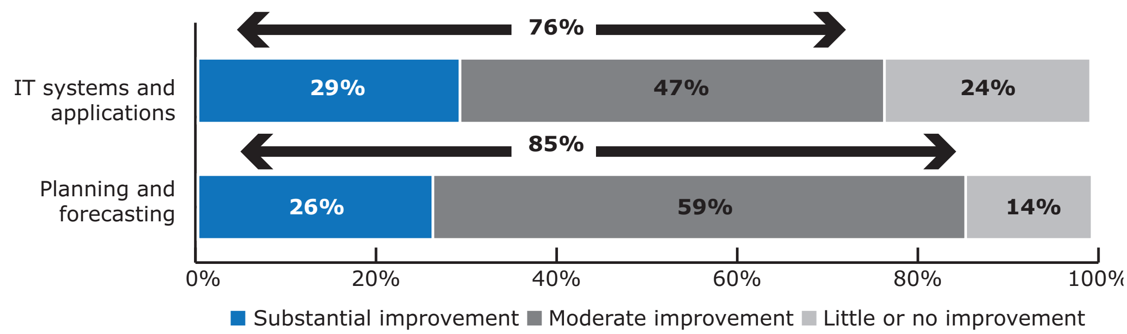
Interviewees comment on the importance of having a flexible and adaptable forecasting process in order to make effective business decisions in these volatile times. In particular, the faster growth trajectory of midsize companies places even more demands on their information resources. As Mr. Roadnight says, "Especially when you are growing rapidly—we've gone from being a $3.5 billion to an $8.5 billion bank in two years—the data demands and risk capabilities are naturally going to be more sophisticated."

Increasingly sophisticated information capabilities are required not only to manage growth through acquisitions, as Great Western has done, but also to cope with the challenges of regulatory reform and with being able to support new ways of doing business, notes Mr. Roadnight:

> "More-granular information should make our forecasting and budgeting process more reliable, but also, more importantly, create some insight into what is really driving the business. Having the information to do budgeting and forecasting by product line, for example, will help us to focus on what our key products are, what our most profitable products are, and make decisions around creating new products or dropping products that are less profitable. It also lets us do things like target markets and regions according to regional differences in product profile.

Figure 5. Finance executives from midsize companies stress the importance of improvements to IT systems and applications, as well as to planning and forecasting processes and systems.

What impact could changes in the following areas have on your company's ability to improve profitability?



Percentage of respondents with $100M - $1B in revenue

"On the credit side, there is most definitely a need to better understand where exposures are, the significance of those exposures, and the underlying collateral. You need to better understand what the true underlying risks to your portfolio are. For instance, if you've got a line out on farmland, what is that farmland? Is it cattle or is it corn? What are your particular industry exposures and customer exposures?

"A forecast is a living document," notes a banking executive.

"Then there are some of the regulatory pressures that pose a risk to earnings, like some of the regulatory changes under Dodd-Frank that affect debit cards, ATM fees, checking account honor fees, and those sorts of things. As we're all trying to digest the Dodd-Frank implications into the business unit, there's going to be a lot more information we need around risk modeling and data capture to support those risk models. Then moving into what is likely to be a Basel III world for banking, it's all going to be about data modeling and data capture. Modeling is key to being able to understand where you're generating your revenue from, the potential impacts these regulations are going to have, and what you can do to mitigate some of those impacts."

Mr. Berkeley at Old National sums up his view when he says, "A forecast is a living document; each month it changes. In fact, each week it changes." He goes on to describe the advantages he finds in Old National's process: "We're doing a rolling 18-month forecast every month, looking out a year and a half constantly. We do a budget once a year, but a forecast is done once a month. So, we're always tweaking it and making adjustments, or we're seeing that a product is doing better than we expected and we factor that into our planning. That way, we can make quicker decisions in response to changing environments on the fly. We can provide senior management with more-timely information on trends we see in financial performance."

Investing in its information systems allowed the bank to drive financial and operating data down to the management level where it could be used to guide the business, according to Mr. Berkeley. "We now provide people with the information they need to run their departments," he says, "and our systems give us much more granularity and detail. We needed that to run the business; we couldn't rely on just the traditional measurements. Two of our most important strategic imperatives are achieving consistent quality earnings and enhancing management discipline. I can provide information on individual products down to the branch level, so that managers know exactly how their branches are doing and how it affects the rest of Old National." Now, Mr. Berkeley says, "we're being more proactive than reactive"—which puts Old National ahead of the game, he believes.

According to Mr. Lack at Mueller, an asset-based company can enjoy the same types of benefits from adopting flexibility into its planning and budgeting processes. He says, "We don't have a stagnant budget. We handle our planning and budgeting using a centralized set of matrices that determine at what revenue levels, gross profit levels, and then expense levels will yield different levels of overall company profitability. We analyze that at a high level, and then we parse that analysis out for our managers."

According to Mr. Lack, the flexibility the company has built into its budgeting process empowers its managers to make their own decisions even as it lays out the company's expectations for performance:

> "We don't publish individual budgets or individual forecasts. Instead, we hand out ranges based on history. We do this throughout the organization so that the people know what we expect, both on the downside and on the upside. For a retail location that may do $10 million a year in revenue, for example, we show them a scenario that, if things go south and you're only doing $7 million and losing 30% of your revenue, this is what you need to do and these are the numbers you need to come in at in order to maintain profitability. Or if you go from $10 million to $13 million, these are the scenarios in place that you need to deliver.
>
> "We will change the targets if there is some germane change in the market. For example, the biggest cost of any of our products is steel. If steel prices go up, we cannot necessarily raise prices to compensate for that increase at the same level, so we may be squeezed. We will then review the targets and determine, are these still valid? If not, we need to reset expectations.
>
> "By having a balanced scorecard system, we also have clarity on what's going to happen if, for example, we encounter the steel price increase two months from now that it looks like the steel mills are going to impose. We can see, this will be the impact on our margin; this will be the impact on our profitability. We can do some 'what-if' scenario planning from that."

This approach has allowed Mueller's managers to make the best decisions during trying times, Mr. Lack believes. "By publishing those ranges," he says, "people have a direction and know what we expect from them, regardless of which way things are going. They're clued in. And we've found that we get complete compliance, from our budgeting standpoint, by publishing this information and then just holding people within those ranges. That's what's helped us to navigate during these times."

Overcoming obstacles to better use of technology

For companies of all sizes, some of the biggest challenges they face are around organizational resistance to change and the lack of an IT strategy or a shared understanding of the role of technology. (See Figure 6.) However, approximately a third (32%) of respondents from the larger companies (with revenues greater than $1 billion) cited the inflexibility of current IT systems as one of the greatest challenges to making effective IT-spending decisions. Only 18% of respondents from midsize companies (with revenues between $250 million and $1 billion) identified the inability of their IT systems to accommodate change as a major obstacle.

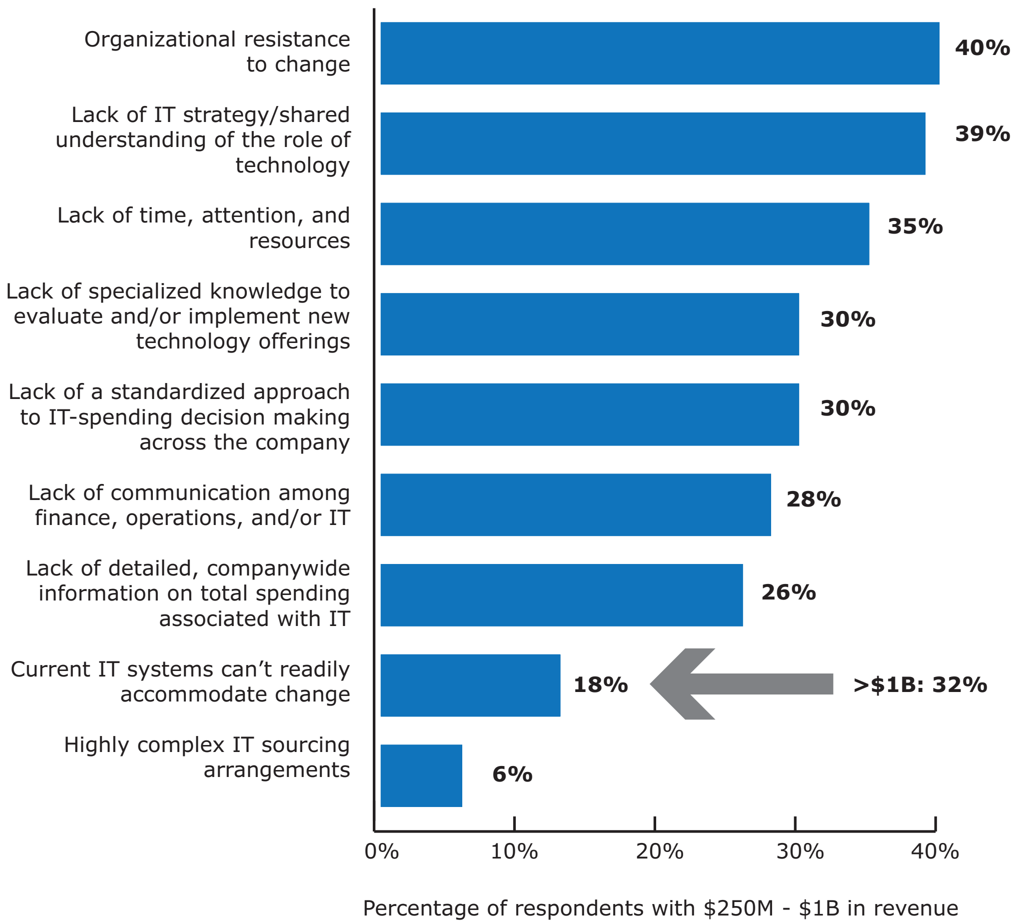
Some of the biggest challenges to technology adoption are resistance to change and the lack of a shared understanding of the role of technology.

Given that midsize companies are also more likely to still be relying on spreadsheets and manual processes for collecting and manipulating data, the finance executives at these companies may feel a more urgent need to replace those processes and applications with more-sophisticated information systems. At the same time, they may not feel that they are limited by current information design architectures or standards. These companies may well have a better opportunity to customize their technology investments to their organizations' capacity to adopt new capabilities and new processes.

Cordell Sweeney, CFO at Empower RF Systems, touches on this point as he describes his experience in building out the information capabilities at the growing RF amplifier manufacturer. "You have to look at what the software really does," he cautions, "and not just what the provider demonstrates for the senior leadership team. It's easy to get wowed by the bells and whistles, but those may not be part of the standard implementation. For example, in one product there was a business-intelligence-type bolt-on that senior management fell in love with, but it wasn't part of the package." (See sidebar, "The pathway to business intelligence at a midsize manufacturer," page 14.)

Figure 6. More finance executives cite cultural aspects, rather than technical issues, as the largest challenges they face in improving their information capabilities. However, larger companies are less likely than midsize companies to have the systems flexibility needed to readily accommodate change.

What are the greatest obstacles to making effective IT-spending decisions at your company?



With BI, says the CFO of a midsize manufacturer, "We will simplify the organization's access to consistent information on a timely basis."

Mr. Sweeney also comments on the importance of matching new technology to the organization's requirements: "Empower was migrating toward a standard-costing environment. However, my predecessor selected a solution that was more tailored for a job-costing environment. That kind of mismatch can really make an organization struggle with an implementation." In the end, he notes, you have to "make sure you know what you're getting. You have to go through a rigorous technical and functional evaluation process—conducting formal and informal reference calls, attending end-user training prior to selection to gain a true feel of the product, and understanding the breadth and depth of the implementation teams from both the solution provider and third-party partners."

The pathway to business intelligence at a midsize manufacturer

Cordell Sweeney is CFO at Empower RF Systems, a growing, California-based firm that engineers, designs, develops, and manufactures RF amplifiers and amplifier-based solutions that are primarily used for military applications. Mr. Sweeney described the progress his company has made in improving its information-management capabilities, and talked about the value he sees in pushing forward to adopt even more sophisticated tools:

"When you look at most ERP systems, the standard reporting capabilities are fairly limited. Some are better than others, but I think that's really where business-intelligence applications can add real value to organizations. With an effective BI environment, you have the capability to integrate operational and financial data and summarize key leading indicators in dashboards to provide leadership teams with visibility into how the business is performing, enhance analytical capabilities, and allow leaders to ask the right questions.

"At Empower RF Systems, we've implemented daily, weekly, and monthly scorecarding metrics. Unfortunately, it's still predominantly Excel-based. However, the benefit of the initial Excel-based approach is that it has allowed us to clean up our data. Our data architecture and mapping has also been in direct linkage with our planned BI and planning implementation. So when we do move forward with the business-intelligence and planning initiative, we're not going to be starting from scratch. We will already know, 'Here's how we're going to monitor the business today, this is what needs to be replicated in the business-intelligence and planning environment, and this is how the data needs to be mapped.'

"I think that one of the hardest parts is the ETL cycle—the extraction, transformation, and loading process. I think that's one of the issues companies struggle with because of the master data management issues across multiple systems. At this stage, we've effectively completed our data mapping so that we can ensure consistency across our existing and legacy systems.

"We are moving down a path of upgrading our data center environment. We are adding a business-intelligence solution this calendar year, as well as making additional investments in engineering software and automated testing initiatives, with a primary focus on productivity and efficiency enhancements.

"My expectation is that, once we implement a business-intelligence solution, we will simplify the organization's access to consistent information on a timely basis, provide one version of the truth, and be able to shift workloads from data crunching to more value-added data analytics. Especially in the smaller companies where resources are tight and doing more with less is critical, getting those productivity and efficiency gains is a key priority. From a return-on-investment perspective, post-implementation, we should be able to free up 30% to 50% of people's time to focus on more value-added activities. And, if an organization is able to leverage the BI solution to make more-timely decisions, the hard savings can also be significant.

"Embedding our Excel-based models into a BI/planning architecture will also drive the planning process another level down in the organization. If midsize companies can get there, it really unlocks the information for executive- and senior-management teams to make better decisions."

Putting the pieces in place for IT transformation

Several of the finance executives interviewed for this report shared their experiences with best practices for managing the development and implementation of new technology capabilities, as well as for ensuring that managers and employees use those capabilities effectively once the consultants have left. As Mr. Sweeny notes, "It always starts with having the right people in place [within your company] and with internal departments taking on the right level of ownership."

Mr. Berkeley at Old National believes that the finance function is one place to look for "the right people." He says, "Now more than ever, I think, we in Finance are trusted business advisers to management. In the past, with traditional accounting, you would just report on the operations—how they went and where you made money and where you didn't make money. But now we're being involved in tactical and strategic decisions that the bank is making. And we're furnishing the information to make those decisions."

Others note the importance of breaking through functional and technical silos so that IT resources are mapped closely with business requirements. In this effort, finance executives can be more involved in building the business case for IT investment to support their companies' pursuit of growth opportunities. Mr. Goheen describes how Neighborhood Health Plan goes about this: "Finance is extremely dependent on IT, so it's really critical for us to have a good constructive working relationship with IT. We've been working on firming up the service-level agreements between the two organizations and doing a better job of articulating our business requirements, so that new programs and reports are written appropriately and are well documented. It's not so much the people; it's the process. If we can have a better process for prioritizing our requests and if we can be extremely clear with IT about what our needs are, that creates a much better working relationship between the two departments."

Finance executives highlight the importance of breaking through functional and technical silos so that IT resources are mapped closely with business requirements.

To help ensure that close working relationship, Neighborhood Health Plan employs business analysts within its IT function. "The more knowledgeable IT is about the business, the better," says Mr. Goheen. "We rely heavily on our business analysts to help translate what our needs are into the requirements for the programmer. The analysts are kind of the middlemen—the translators in some ways."

That kind of collaborative approach informs the finance function's activities as well, Mr. Goheen notes: "We're always looking at the data, slicing and dicing it to try to figure out better ways to help our clinical folks and our contracting folks reduce costs and improve quality of service at the same time. We analyze all of our claims expenses and try to better understand the drivers of our claims, and then we work with the leadership in our clinical area and in our contracting area to come up with solutions that will help control those costs better."

Several interviewees also stress the importance of working with the right technology partners to smooth implementation of new applications or systems. Commenting on his own experience implementing ERP, business-intelligence, and planning systems, Mr. Sweeney at Empower RF Systems says, "Especially in the midmarket companies, you have to make sure you've got the right partners in place. Clearly, many midsize companies can't have all the domain expertise in-house, so you've got to have access to partners on the outside where you can get that domain expertise when needed."

Mr. Roadnight at Great Western Bank also notes the benefits of working with a trusted technology partner: "Keeping with the same provider as much as possible helps you to eliminate a lot of the 'spaghetti' that can be created if you do just keep adding different modules to your core platform from different providers over time."

Another important aspect of a successful implementation, according to Mr. Sweeney, is working with the technology implementation teams to transfer knowledge to the company itself. This ensures that the company can make the best use of the new capabilities once the system is up and running and the consultants go home, he says: "Whether you're implementing ERP, CRM, business-intelligence, operational software, supply chain software, MRP software—any major software investment—you're going to get to a point where knowledge needs to be transitioned to your internal resources. If you don't have internal resources responsible for the care and feeding of the new systems once the consultants leave, that's a recipe for disaster."

Mr. Berkeley also stresses the importance of educating management and users in order to get the most out of technology investments. "It's a whole process; it wasn't something we just turned on," he says of Old National's initiative to install a new management performance platform. "We're driving accountability and transparency down through the organization, so we had to educate people. It started at the top of our company and trickled down, but we had to get everybody to understand what it was we were going to give them, so they could start to share it with their teams."

In the end, interviewees note that the value provided by advanced information capabilities becomes self-perpetuating. "Implementing a BI solution will take time," says Mr. Sweeney, "but my experience has been that, once you are able to provide people easy access to a little bit of information, they start asking for more—which ultimately sets a foundation for leveraging information to make better decisions."

A CFO notes, "Once you are able to provide people easy access to a little bit of information, they start asking for more."

Sponsor's perspective

In today's improving economy, midsize companies are turning their attention to identifying and capitalizing on growth opportunities. And technology investments are critical to supporting the information gathering and analysis that drive growth.

An integrated BI and planning solution can help maximize ROI in technology and deliver the best possible value to the business. Integrated BI and planning helps harness accurate information, turn it into actionable insight, and deliver those insights across the organization for the most agile decision making. By linking the insights gained through BI and planning processes, companies drive the information agenda that fuels business optimization and drives growth.

IBM Cognos Express is the first and only integrated, one-stop business-intelligence and planning solution purpose-built to meet the performance management needs of midsize companies. It provides the essential reporting, analysis, dashboard, scorecard, planning, budgeting, and forecasting capabilities that midsize companies need at a price they can afford. Everything is included in a preconfigured solution that is easy to buy, easy to install, and easy to use.

IBM Cognos Express provides midsize companies with consistent, reliable information to answer the three critical business questions: How are we doing? Why? And, what should we be doing? With insights drawn from answering these questions, managers can make better, faster decisions and optimize business performance to drive greater efficiencies, reduce costs, and identify new growth opportunities. For organizations that are embarking or expanding on a business-intelligence and planning strategy, IBM Cognos Express includes everything needed to get started on their performance-management journey. It offers powerful, easy-to-use capabilities for both novices and advanced users to encourage broad adoption throughout a company.

For further information or to reach a representative: www.ibm.com/cognos

IBM®

Finance Executives on the Value of Technology Investment for Midsize Companies is published by CFO Publishing LLC, 51 Sleeper Street, Boston, MA 02210. Please direct inquiries to Jane Coulter at (617) 790-3211 or janecoulter@cfo.com.

IBM funded the research and publication of our findings. At CFO Research Services, David Owens directed the research and wrote the report.

CFO Research Services is the sponsored research group within CFO Publishing LLC, which includes *CFO* magazine, CFO Conferences, and CFO.com.

March 2011