

IBM Cognos Finance Forum 2010

Anticipate and Shape Business Outcomes

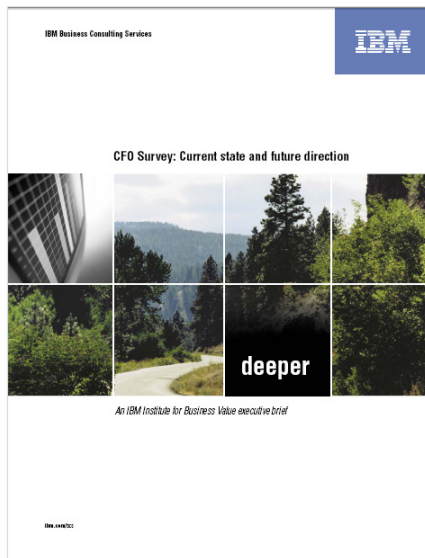
Finance's New Role: Insights from the 2010 IBM Global CFO Study

David Santoro
Executive Partner
IBM Global Business Services –
Finance & Risk



The 2010 IBM CFO Study is the fourth edition since 2003, and builds upon our past primary research from 2005 and 2008

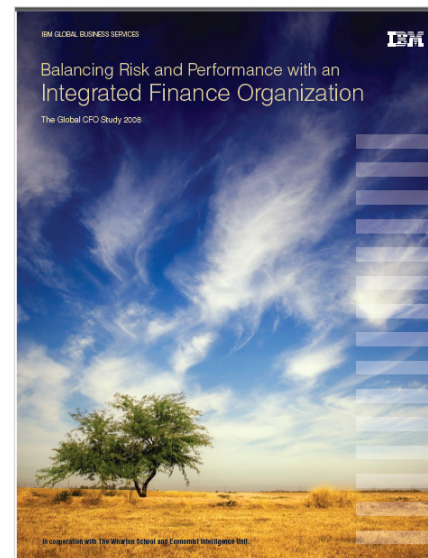
CFO Studies



2003



2005



2008



2010

Our study was conducted during the global economic crises and comes to market as signs of a new economic environment emerge

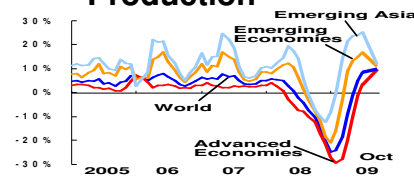
Economic Environment, recent past and looking forward

Global Financial Crises

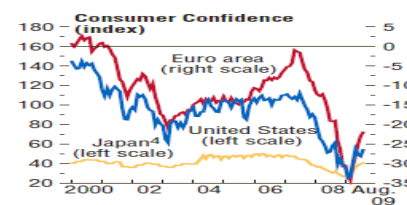
- Liquidity Driven Crises
- Real Estate Bubble burst
- Failure of collateralized debt obligations
- Drop in Global Commerce
- Cost reduction pressures
- Rising unemployment
- Drop in commodity values
- Dramatic drop in consumer demand
- Increased risk, volatility and uncertainty

Signs of Stability

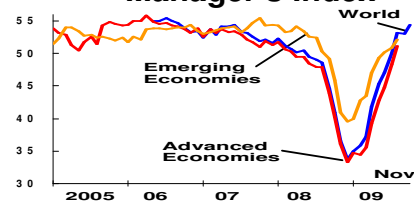
Change in Industrial Production



Consumer Confidence



Mfg. Purchasing Manager's Index

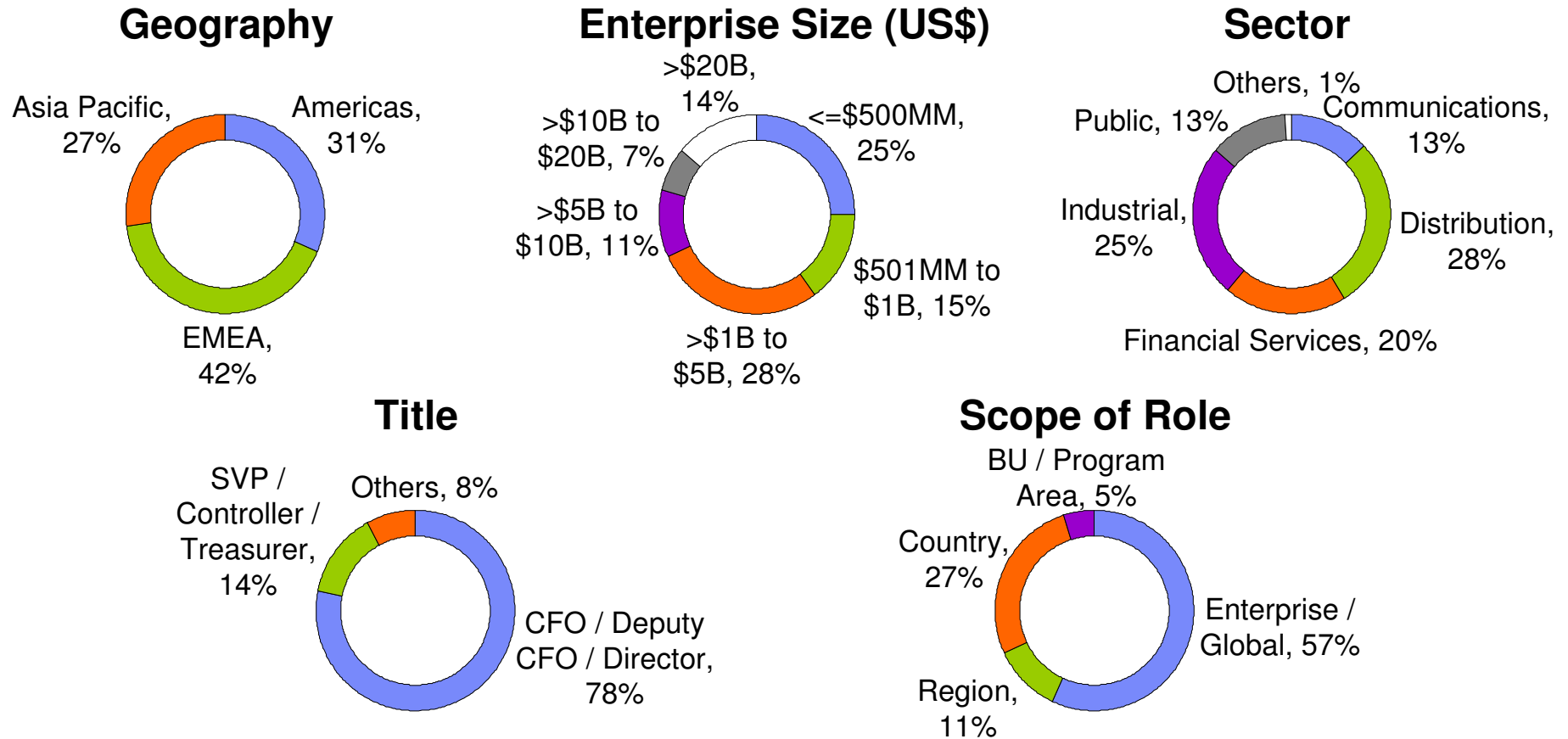


New Economic Environment

- Subdued growth
- Continued cost pressures
- Continued high unemployment
- Reduced Global commerce and demand
- End-to-end stimulus and Government hand in business
- Sovereign debt concerns
- Industry Restructuring and consolidation
- Continued uncertainty, elevated volatility and risk

The Global CFO Study 2010 is the largest CFO-level study of its kind with over 1,900 participants

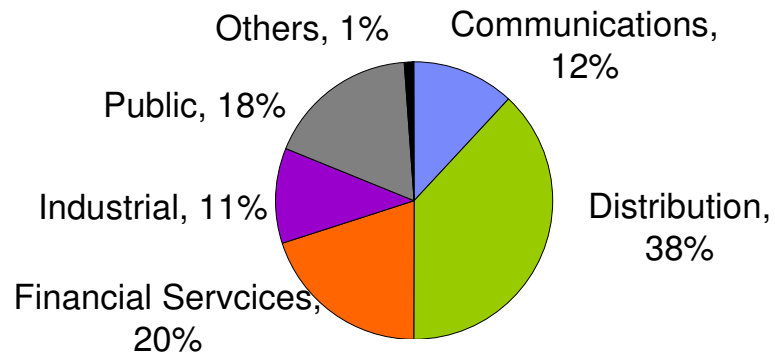
CFO Study 2010 Firmographics



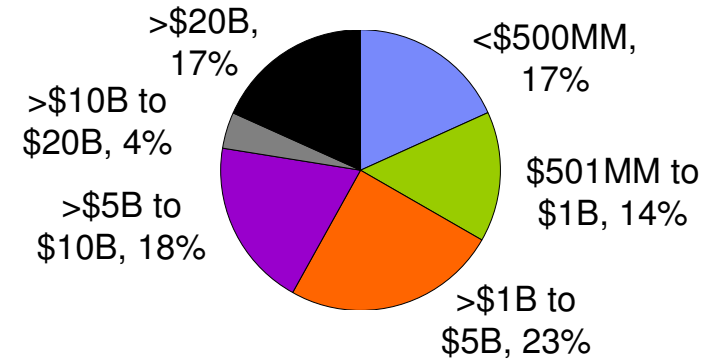
N = 1,910
 Source: IBM Institute for Business Value, The Global CFO Study 2010
 Geography = Country of Company Headquarters

125 participants in the UK and Ireland ...

Sector

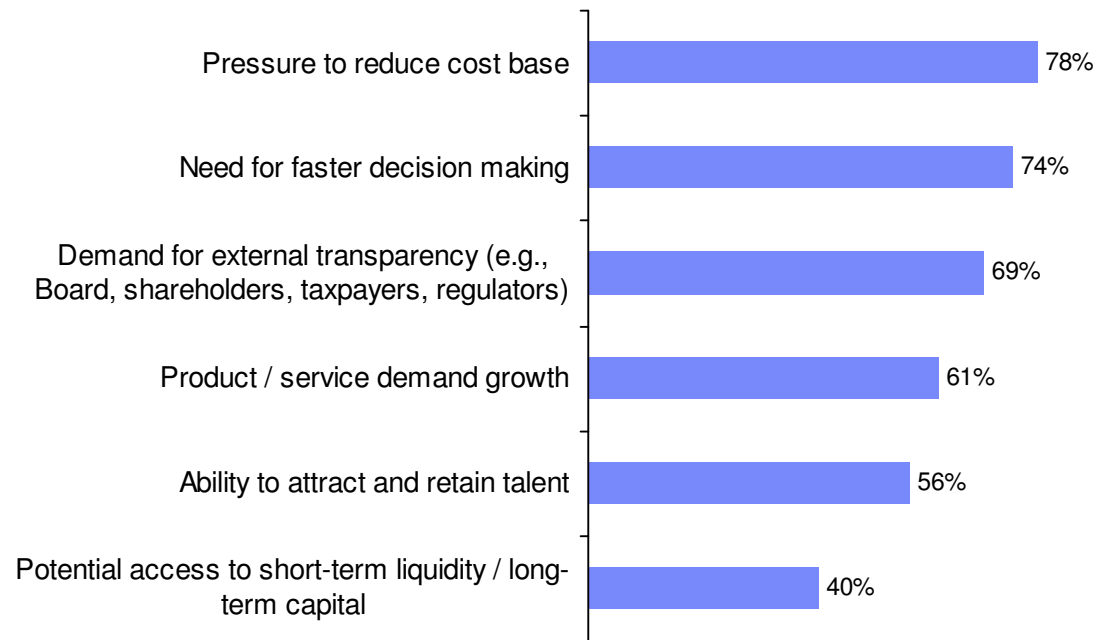


Enterprise Size (US\$)



CFOs believe that industry / sector pressures will increase challenges and opportunities over the next three years

Industry / Sector Changes Over the Next Three Years



 ***As a result of these factors, ~60% of Finance organizations believe that they have to make major changes to respond.***

N = 1,844 to 1,905

Note: Executives asked: In the next 3 years, how will the following conditions change in your industry / sector? Excludes participants that select "Don't know"

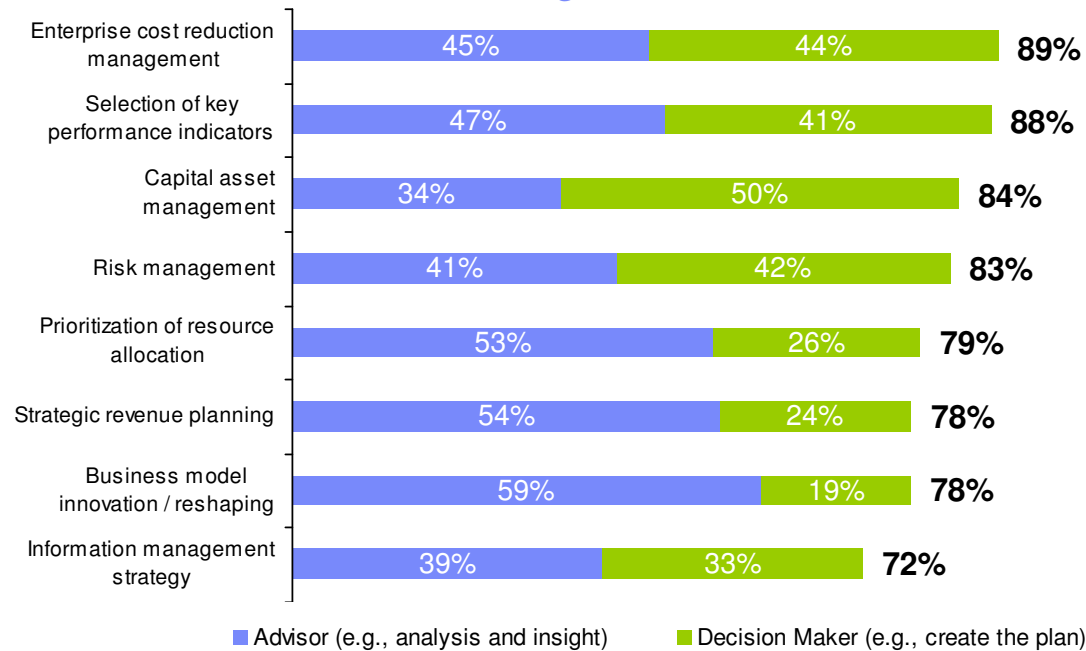
Note: Defined as enterprises selecting [5] Increase considerably and [4] Increase on a 5-point scale where [5] Increase considerably and [1] Decrease considerably

Source: IBM Institute for Business Value, The Global CFO Study 2010

CFOs are taking a more prominent role in enterprise decision making

Elevated Role of Finance

Role of Finance in Driving Decisions Across the Enterprise



Over 70% of CFOs believe they have an advisory or decision making role on the Enterprise agenda.

N = 1,881

Note: Executives asked: What role is Finance playing in driving decisions across the enterprise? (Select only one per area)

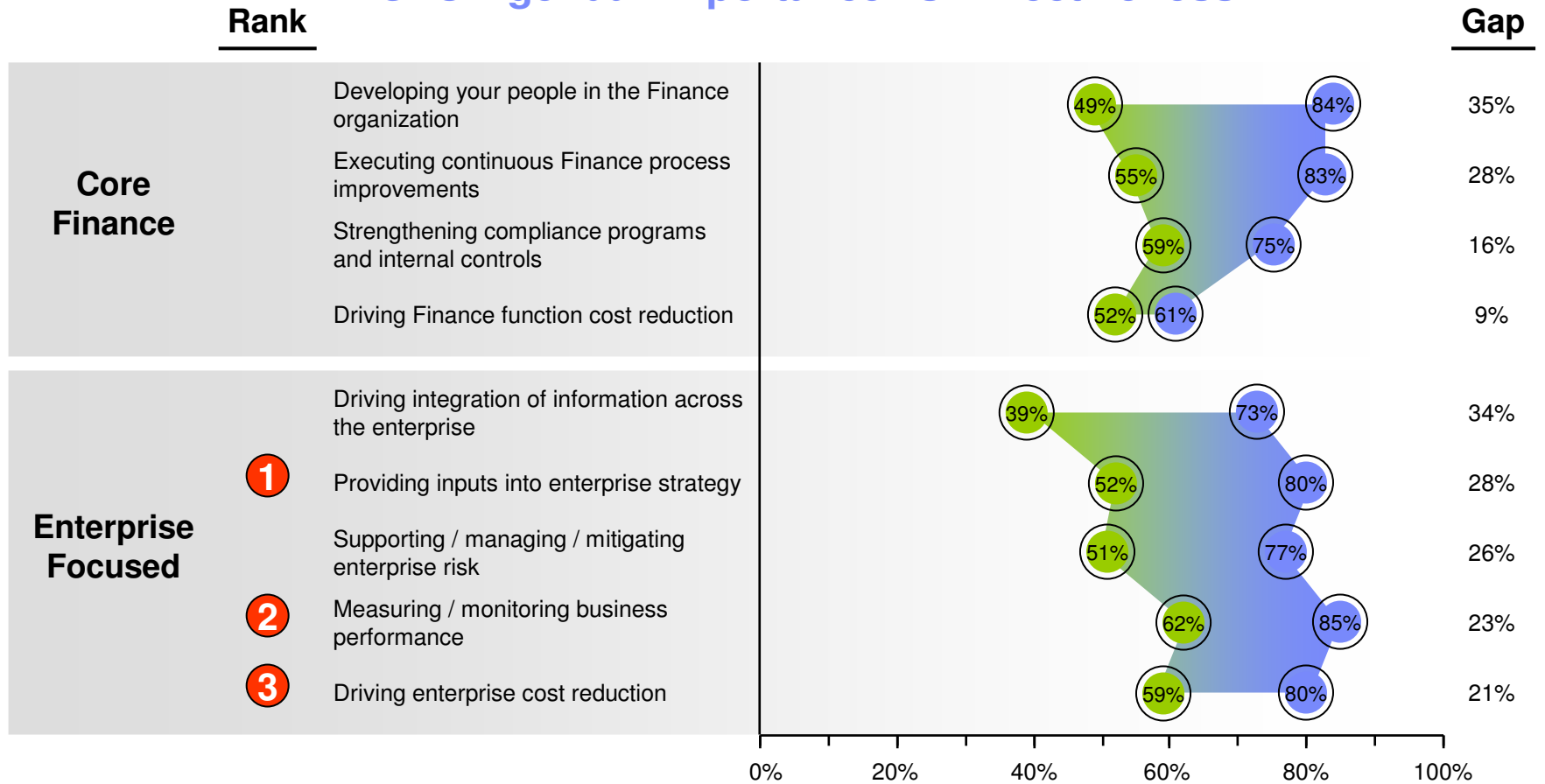
Note: Respondent choices included No Role, Informer, Advisor and Decision Maker

Source: IBM Institute for Business Value, The Global CFO Study 2010

However, Finance needs to improve its effectiveness in order to deliver on the enterprise agenda

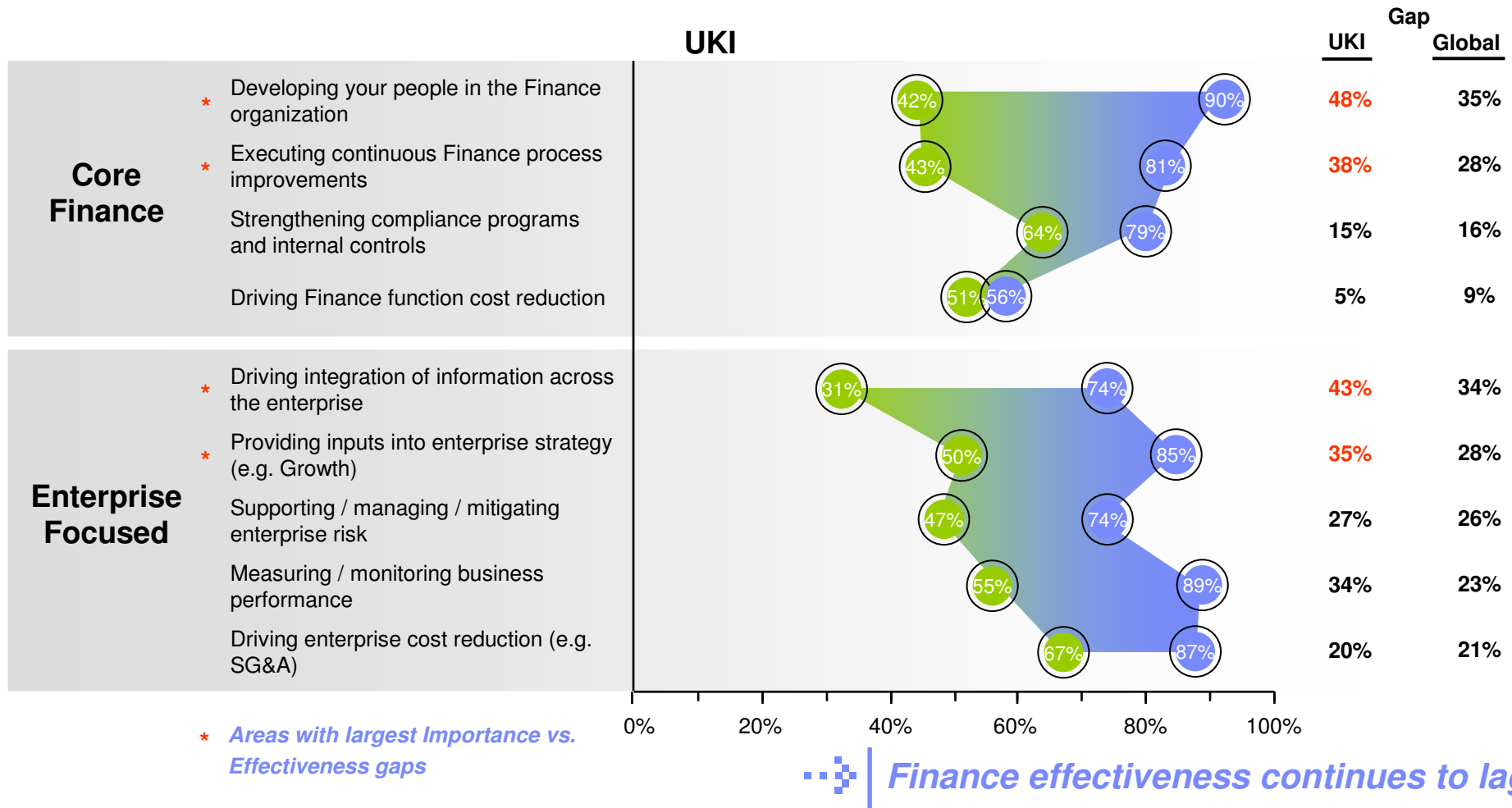
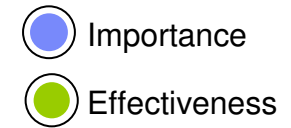
CFO Agenda: Importance vs. Effectiveness

● Importance
● Effectiveness



N = 1,834 Note: Executives asked: How important to your Finance organization are each of following areas of responsibility? and How effectively do you think your Finance organization is performing in each of those areas? And Please rank your top 3. Importance defined as enterprises selecting [5] Critical and [4] on a 5-point scale where [5] Critical and [1] Unimportant. Effectiveness defined as enterprises selecting [5] Very Effective Critical and [4] on a 5-point scale where [5] Very Effective and [1] Ineffective
 Source: IBM Institute for Business Value, The Global CFO Study 2010

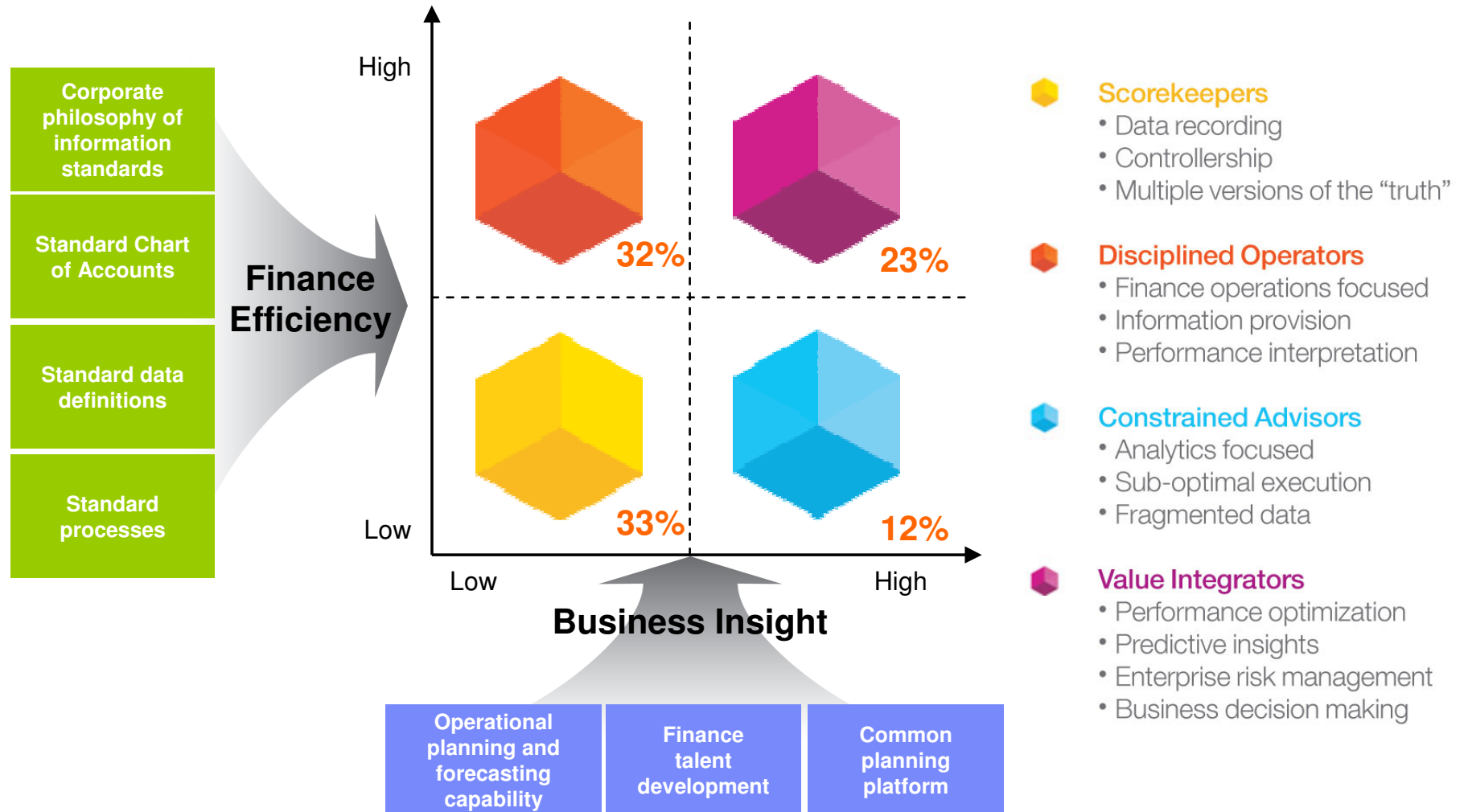
UK / Ireland ...



Note: Defined as enterprises selecting [5] Critical and [4] on a 5-point scale where [5] Critical and [1] Unimportant
 Source: IBM Global Business Services, The Global CFO Study 2010

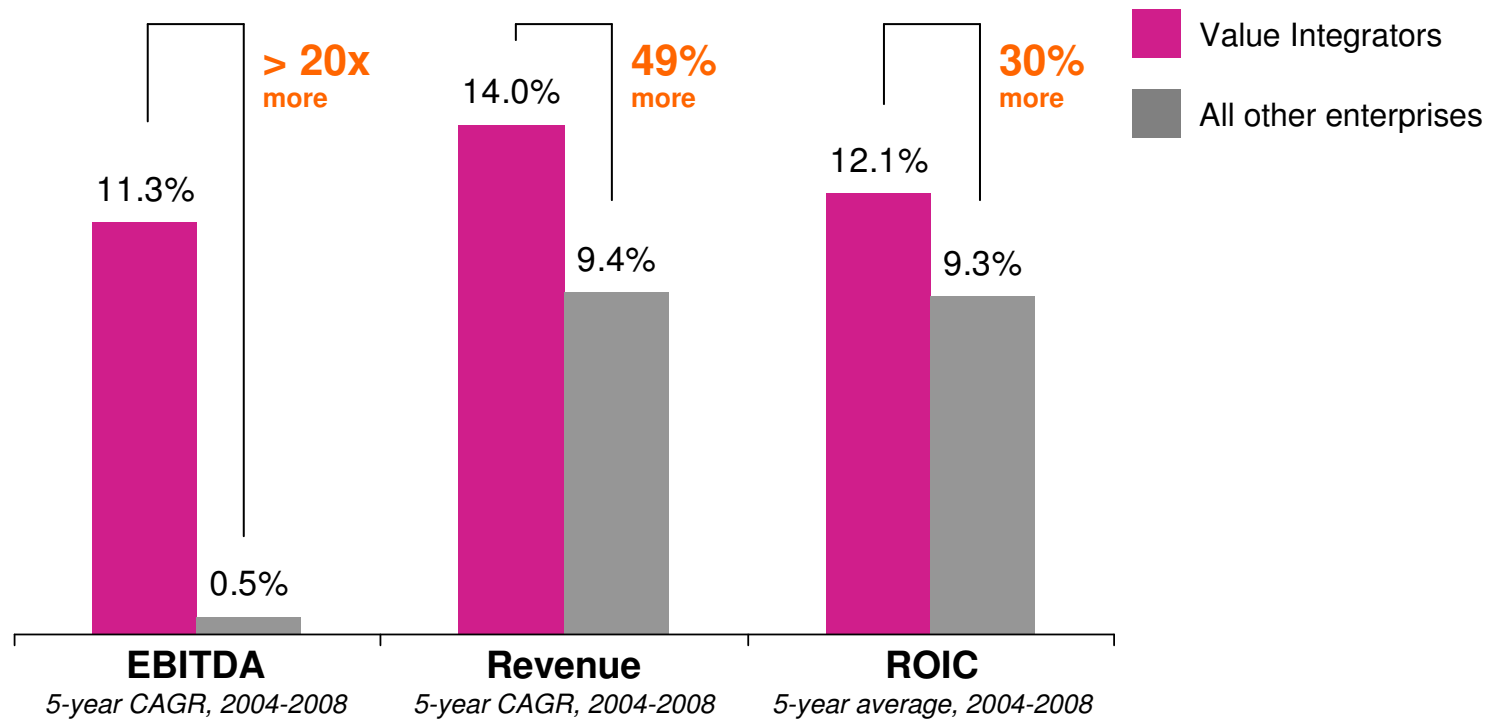
Four Finance profiles become apparent when participants are segmented by efficiency and business insight

Finance Efficiency and Business Insight



Value Integrators excel in both efficiency and business insight, contributing to financial outperformance

Efficiency + Business Insight Contributes to Outperformance

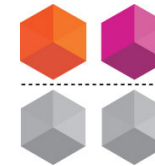


Value Integrators also have an almost 20% better operating efficiency ratio than all other companies examined.

Revenue Growth: N = 580; EBITDA: N = 531; ROIC: N = 501;
Source: IBM Institute for Business Value, The Global CFO Study 2010

Theme #1

- **Delivering efficiency through standards matters more than ever**
- Providing business insight drives performance improvement beyond finance
- The greatest rewards come from doing both well



“In the next three years, change will drive the criticality of decision support. Therefore, we must find better ways to do transaction support and control activities with improved processes and more automation.”

*Bob Driessnack
CFO, Intermec Inc.*

“Finance has undertaken a number of initiatives to underpin growth, in particular the establishment of a shared service center. This has enabled us to respond much more quickly, close in days not weeks, undertake rapid process change and reduce costs.”

*Richard Yu
VP Finance, Aviva-Cofco Life Insurance, Co. Ltd*

Finance continues to struggle with structural complexity due to issues related to automation and standards

Efficiency Challenges

Nearly 40% of enterprises produce financial metrics manually

Finance continues to spend nearly 50% of time on transactional activities

Over 35% lack a common reporting platform

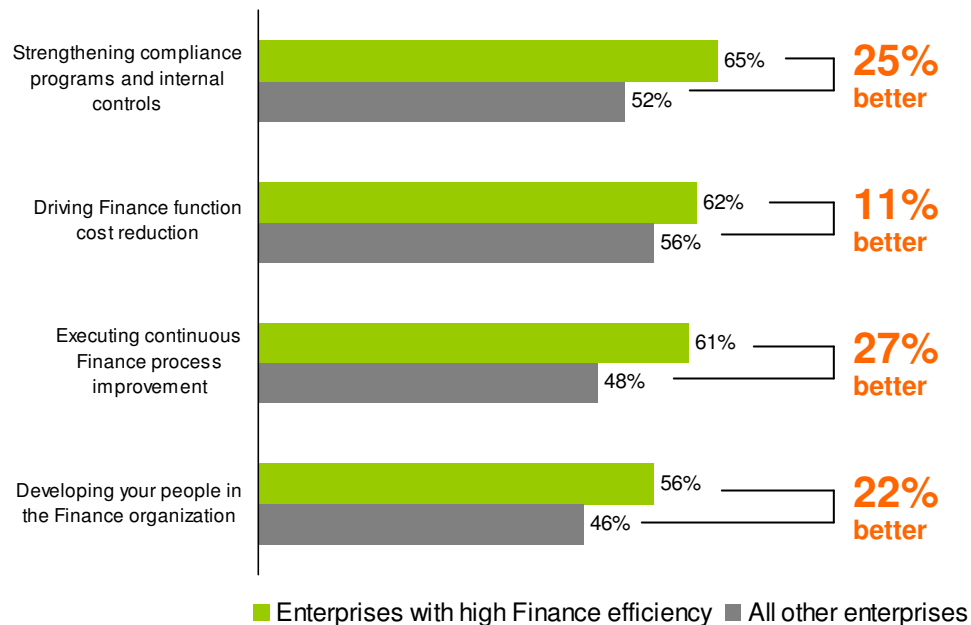
20% have no information standards

Over 35% lack the necessary common data definitions and processes

Enterprises that have adopted standards and increased Finance efficiency are performing better

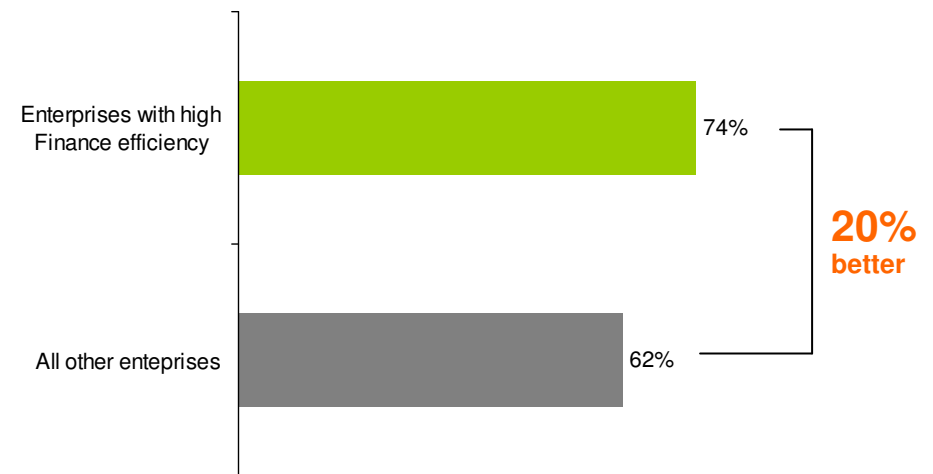
Effectiveness Benefits of Finance Efficiency

Effectiveness Against Core Finance Activities



N = 1,867 to 1,880
 Note: Defined as those enterprises selecting [5] Very Effective or [4] Effective on a 5-point scale where [5] Very Effective and [1] Ineffective
 Source: IBM Institute for Business Value, The Global CFO Study 2010

Finance Efficiency Helps the Enterprise React to External Forces

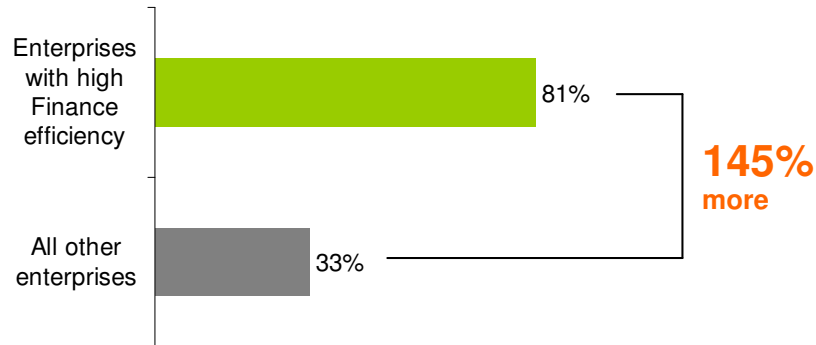


N = 1,883
 Note: Defined as those enterprises selecting [5] Very Well or [4] on a 5-point scale where [5] Very Well and [1] Very Poorly

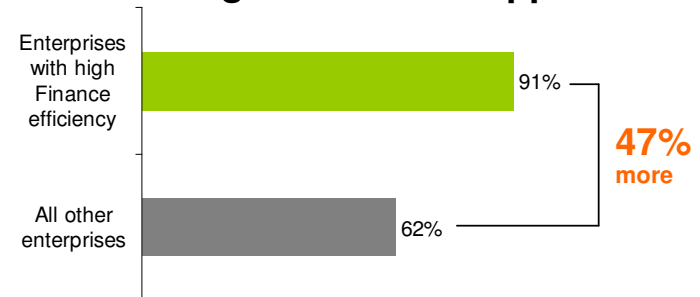
The study revealed the three most prevalent things companies with higher *Finance Efficiency* have done to improve

Finance Efficiency Accelerators

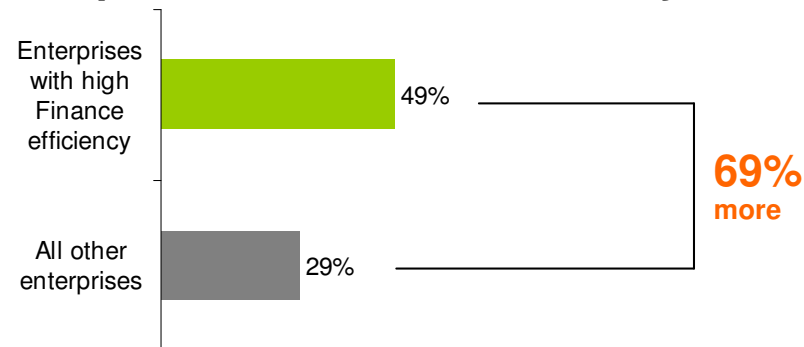
Adoption of Process Ownership



Implementation of a Common Ledger and Accounting Transaction Applications

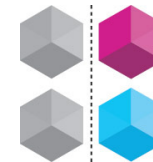


Adoption of Alternative Delivery Models



Theme #2

- Delivering efficiency through standards matters more than ever
- **Providing business insight drives performance improvement beyond Finance**
- The greatest rewards come from doing both well



“For multinational companies, regulatory and political changes can happen arbitrarily at any time, significantly impacting the execution of strategy. As a result, planning must be much more scenario-based with the ability to rapidly adapt.”

*Markus Kistler
CFO - North Asia and China, ABB*

“Business analytics is one of our most critical Finance initiatives. We need to have the right people and tools and stay very close to the business.”

*Mike Newman
CFO, Office Depot*

The following are examples of business insight from rear view to forward-looking view

Business Insight

Key Business Questions

- | | | |
|--|---|--|
| <ul style="list-style-type: none"> • What happened? • How many, how often? | <ul style="list-style-type: none"> • Where exactly is the problem? • Why is this happening? • What actions are needed? | <ul style="list-style-type: none"> • What will happen next? • What if these trends continue? • What are the risks or opportunities? |
|--|---|--|



Examples of Business Insight

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Balance sheet, profit and loss, and cash flow statements • Revenue and cost variance analysis | <ul style="list-style-type: none"> • Customer, product and market profitability • Spend optimization • Working capital analysis • Market, customer and channel pricing • Sales and supply chain effectiveness | <ul style="list-style-type: none"> • Cash forecasting • Scenario-based planning and forecasting • Strategic investment decision support • Volatility and risk-based predictive and behavioral modeling |
|--|--|--|

The majority of enterprises are not able to effectively deliver business insights

Business Insight Challenges

Nearly 55% lack a common planning platform

55% not satisfied with their operational planning and forecasting analytical capability

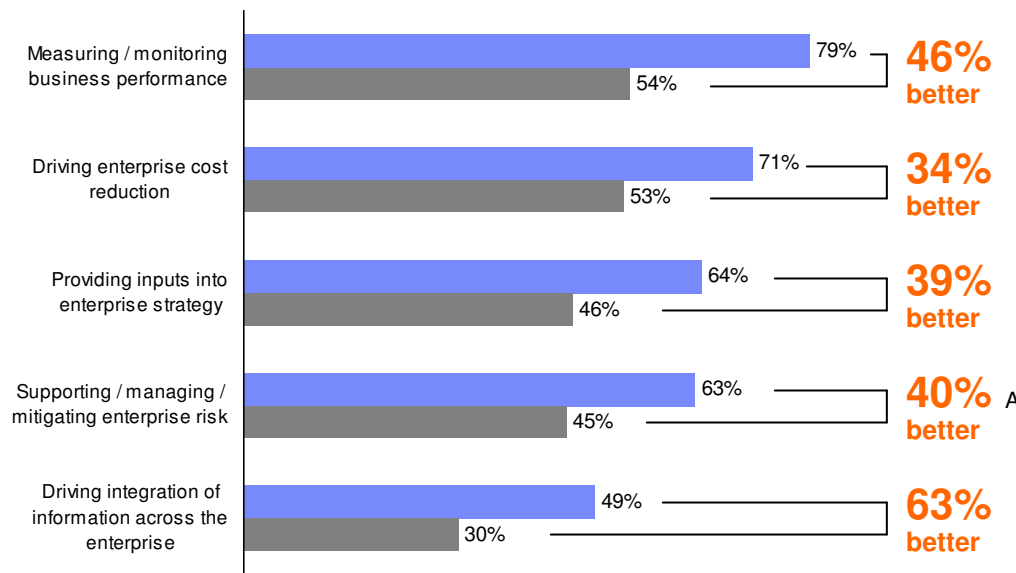
57% manually producing operational metrics

49% are poor to average at anticipating external forces

Finance organizations with strong business insight are performing better

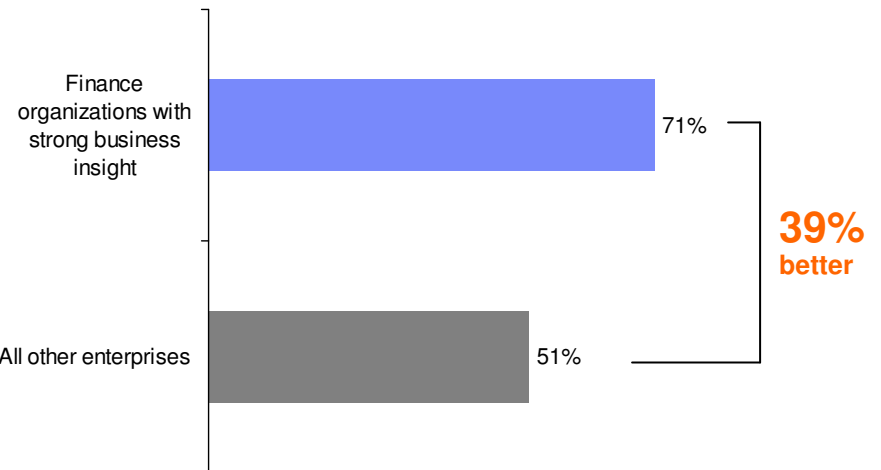
Effectiveness Benefits of Business Insight

Effectiveness Against Enterprise Focused Activities



■ Finance organizations with strong business insight ■ All other enterprises

Business Insight Helps the Enterprise Anticipate External Forces



N = 1,458 to 1,469
 Note: Defined as those enterprises selecting [5] Very Effective or [4], on a 5-point scale where [5] Very Effective and [1] Ineffective
 Source: IBM Institute for Business Value, The Global CFO Study 2010

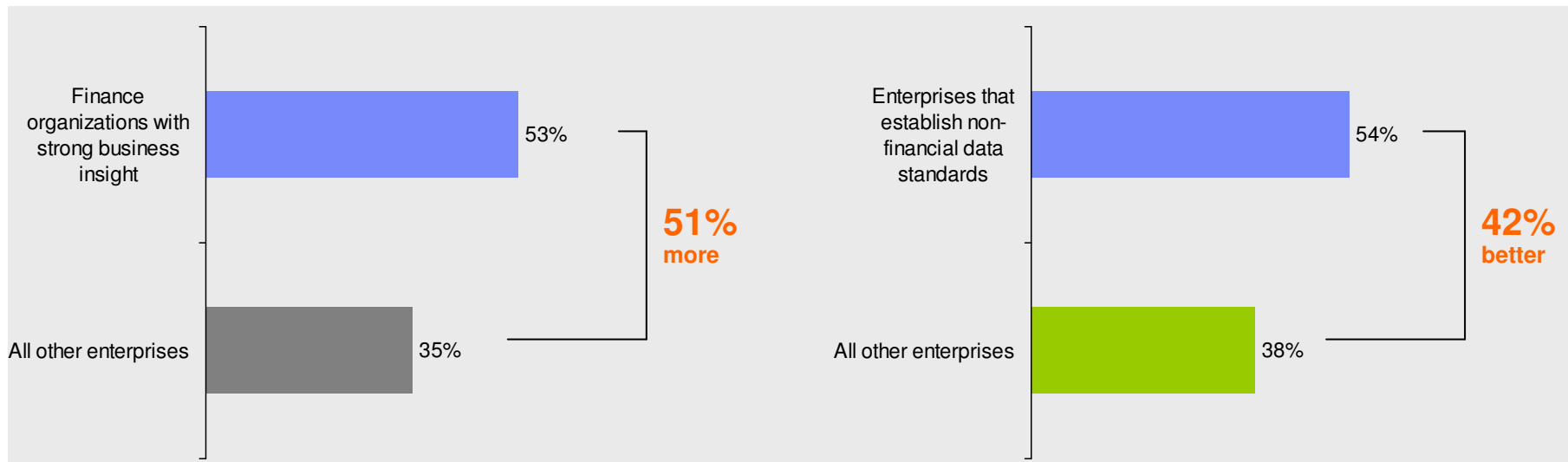
N = 1,471
 Note: Defined as those enterprises selecting [5] Very Well or [4], on a 5-point scale where [5] Very Well and [1] Very Poorly

Finance organizations with strong business insight establish operational data standards, providing common “truth”-based insight

Accelerator: Establishment of Non-Financial Data Standards

High Adoption

Impact on Analytics Satisfaction



N = 1,449

Note: Defined as those enterprises selecting [5] To a very large extent or [4] on a 5-point scale where [5] To a very large extent and [1] Not at all

Source: IBM Institute for Business Value, The Global CFO Study 2010

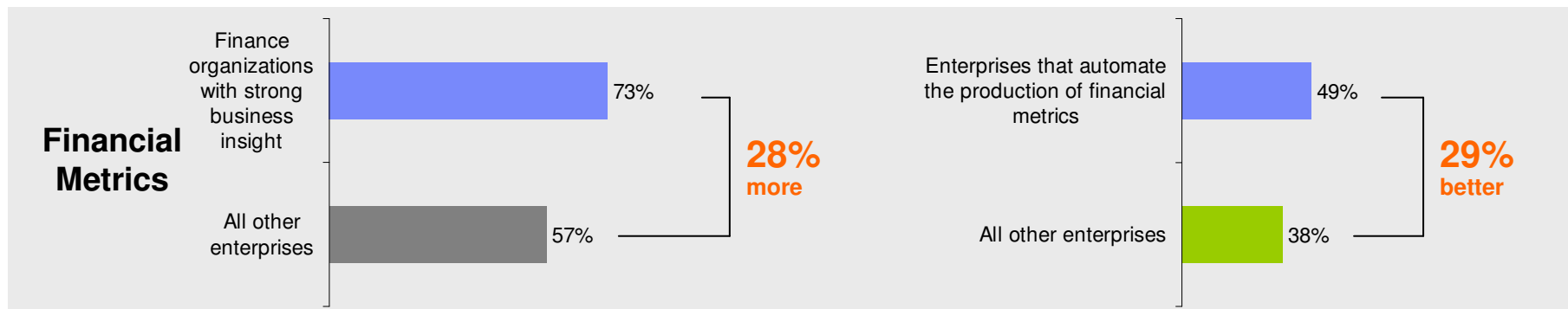
N = 1,442

Finance organizations with strong business insight have automated financial metrics production, are more efficient, and facilitate speed of insight

Accelerator: Timely Financial Metrics

High Automation

Impact on Analytics Satisfaction



Financial: N = 1,463; Operational: N = 1,435
Note: Defined as those enterprises selecting [5] Largely automated or [4], on a 5-point scale where [5] Largely automated and [1] Largely manual
Source: IBM Institute for Business Value, The Global CFO Study 2010

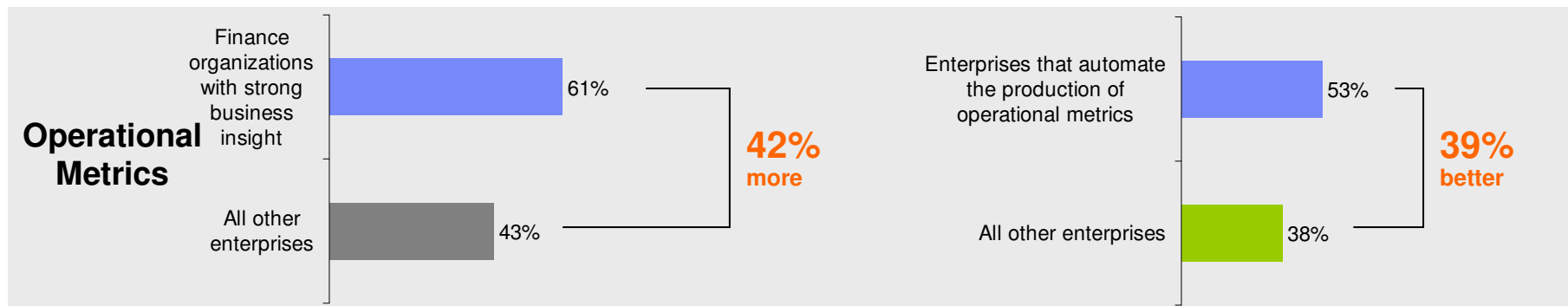
Financial: N = 1,454; Operational: N = 1,428

Finance organizations with strong business insight have automated operational metrics production

Accelerator: Timely Operational Metrics

High Automation

Impact on Analytics Satisfaction



Financial: N = 1,463; Operational: N = 1,435
Note: Defined as those enterprises selecting [5] Largely automated or [4], on a 5-point scale where [5] Largely automated and [1] Largely manual
Source: IBM Institute for Business Value, The Global CFO Study 2010

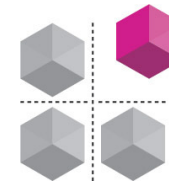
Financial: N = 1,454; Operational: N = 1,428

Theme #3

- Delivering efficiency through standards matters more than ever
- Providing business insight drives performance improvement beyond Finance
- **The greatest rewards come from doing both well**

“What makes companies stand out from one another is the ability to use analytics across the end-to-end business model. Greater transparency from one end of the business to the other is key.”

*Dennis Hickey
VP - Corporate Controller, Colgate Palmolive*

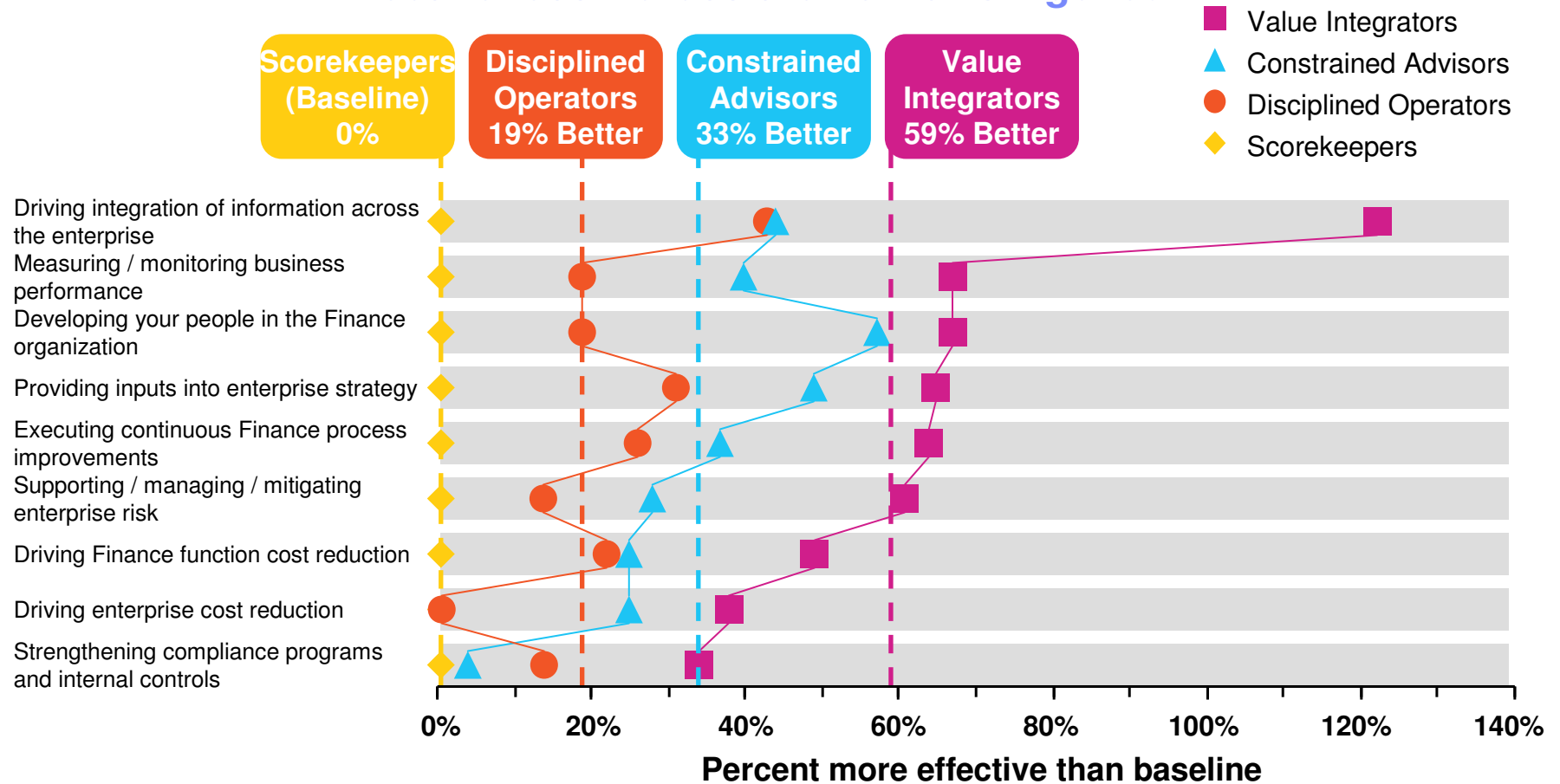


“Our job is to focus the enterprise on making timely, risk-based decisions by providing access to the right business-relevant information and insight-driven analytics.”

*Mark Buthman
CFO, Kimberly Clark Corporation*

Those that excel in both efficiency and business insight are more effective than those who excel in only one dimension

Effectiveness Across the Full CFO Agenda



N = 1,454 to 1,469
 Source: IBM Institute for Business Value, The Global CFO Study 2008, 2010

Value Integrators drive broader improvements in data and analytics, process, and technology

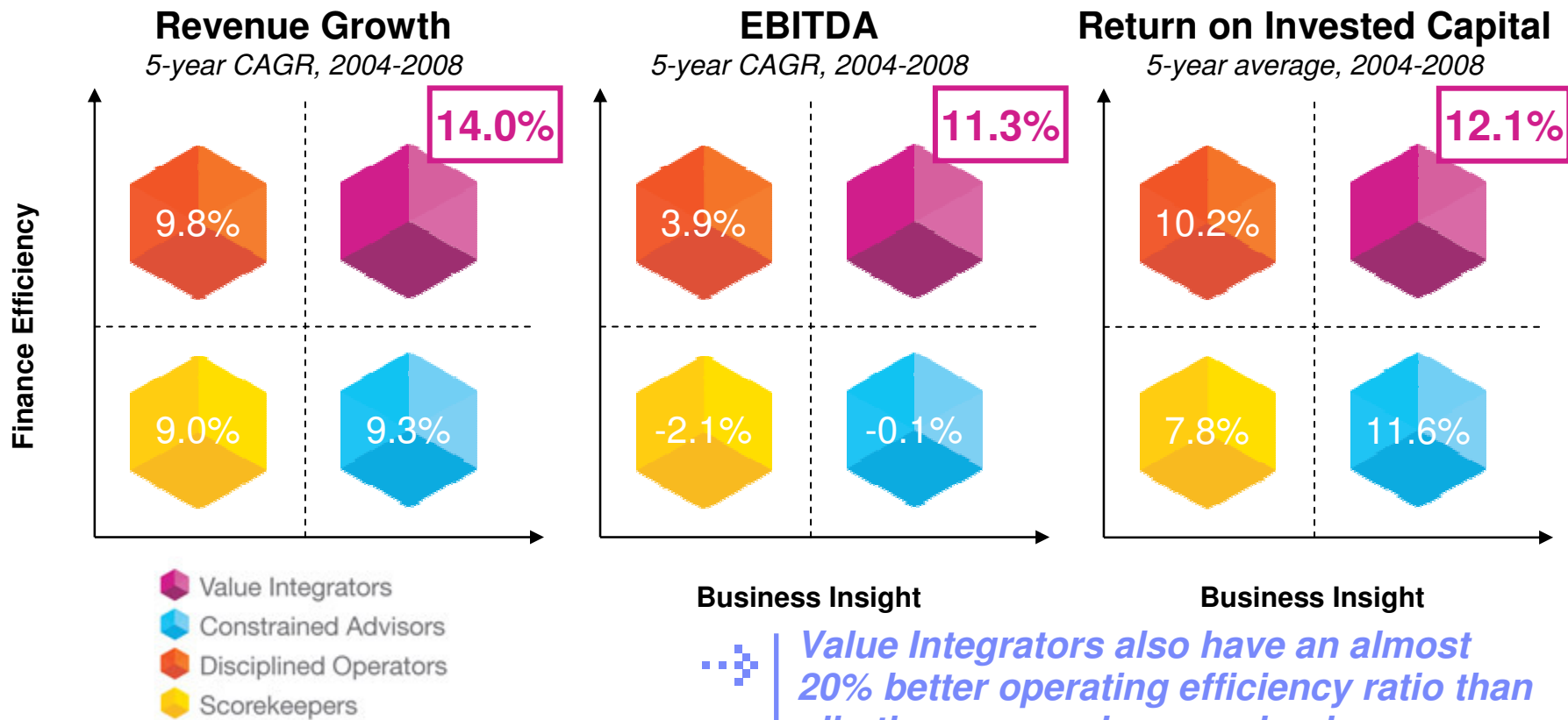
What do Value Integrators do differently?



Source: IBM Institute for Business Value, The Global CFO Study 2010

Value Integrators excel in both efficiency and business insight, and are rewarded

Efficiency + Business Insight Contributes to Outperformance



Business Insight

Value Integrators also have an almost 20% better operating efficiency ratio than all other companies examined.

Revenue Growth: N = 580; EBITDA: N = 531; ROIC: N = 501;
 Source: IBM Institute for Business Value, The Global CFO Study 2010



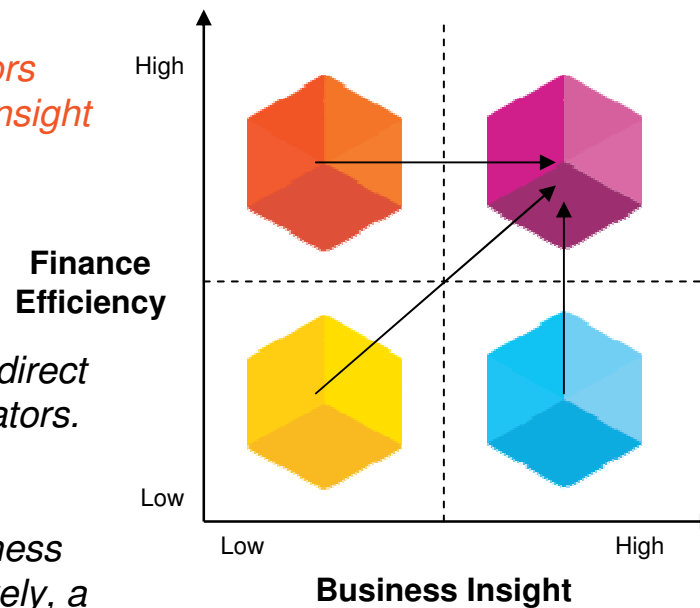
The Path Forward

CFOs aspiring to evolve their Finance Model to higher capability should address performance gaps with specific action plans

Paths to Higher Value

High efficiency enabled by process and Finance data standards suggests Disciplined Operators focus on maturing business insight and partnering capabilities

Scorekeepers can attempt a direct path to become Value Integrators. This will involve establishing Finance efficiency while simultaneously building business insight capabilities. Alternatively, a staged approach can also be done



Value Integrators can maintain their advantage through a program of continuous improvement to sustain capabilities and value

Constrained Advisors have good business insight, constrained by structural complexity, therefore address process and data standards to improve efficiency, accuracy and speed

- Value Integrators
- Constrained Advisors
- Disciplined Operators
- Scorekeepers