BECOMING A DIGITAL BUSINESS:

THE FINANCE FUNCTION CATCHES UP

The e-Brief

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MAIN STORY

Becoming Digital and Automated: Now It's the Turn of Finance

CFOs are coming round to the idea of digitalizing and placing financial processes in the cloud to cut costs and enhance productivity – and free up finance's time for business partnering and high-level analytics

It wasn't too long ago when consumer food multinational Del Monte Pacific needed more than 30 accountants to process paper invoices. There were stacks of them coming every month – the Singapore-listed Del Monte accounts for about a tenth of the world's annual production of processed pineapple products and therefore has an extensive global supply chain.

The piles of paper are now being whittled down.

"Today, we do not handle hard copies in our accounting anymore," says Cesar Canlas, Group Head, Information Technology. New electronic processes, including a vendor portal and an approvals system accessible on mobile devices, allow paperless invoice claims and processing. "Though we are not yet at the end of our journey, we could already reduce these manual efforts significantly and focus more on the process quality," he says.

That's only the start. Like other companies in Asia, Del Monte aims to leverage the real-time data generated by the digitalization and automation of financial and operational processes for data analytics. The resulting insights will help the CFO not only to optimize working capital and enhance cost efficiency, but also gain insights into the business and the future.

Compiled, analyzed and interpreted, the real-time information is invaluable in fine-tuning budgeting, planning and forecasting, and in advising the company on strategy, pricing, performance metrics, risk management, compliance and decision-making.

Starting the journey

When the digital revolution first started, businesses in Asia initially nibbled at the edges, replacing paper and faxes with email and exploring Software-as-a-Service solutions for HR and sales and marketing, for example. Security was a big concern, and CFOs were hesitant to put financial processes and information on the cloud, even as tax and other authorities were still requiring paper documents.

But now that digitalization is well underway and regulators are catching up, CFOs are coming round to the idea of digitalizing and placing financial processes in the cloud not only to cut costs and enhance productivity and efficiency, but also to free up finance's time for business partnering and provide it with digital data for high-level analytics.

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Of course, technology can be disruptive. But the enterprise that walls it out or is inept in its deployment may not survive. "We should see digital innovation, technology, as a huge source of optimism," argues Richard McLean, CFO for Asia Pacific and Japan at enterprise software maker SAP.

"For the first time," he observes, "finance is going to have the tools and technologies they need to provide the data-driven insights necessary to deliver on the requirement to increase business value." Those tools include workflow-based software solutions, such as those deployed by Del Monte for invoicing, automation, mobile applications, robotic process automation, blockchain technology and artificial intelligence.

SAP has a leg up on other organizations because it develops many of these tools itself. McLean says the multinational has by no means completed the journey, which it started four years ago. So far, SAP has deployed technology that captures and stores data in-memory, automates financial and operational processes, and connects the company to customers, vendors, suppliers and its own workforce.

But already, "we're the fastest closing company on the German stock exchange," says McLean. "We can close our books annually after eight working days." There's only one version of the truth, so people don't waste time questioning the data. Instead, everyone focuses on interpreting and understanding it and taking steps to enhance the customer experience, improve productivity and boost innovation.

People and technology

The same impulse is at work in United Laboratories Inc., a healthcare company in the Philippines that develops, manufactures and markets a wide range of prescription and consumer health products covering all major therapeutic categories. "We see technology as an enabler for us to deliver better services at lower cost," says Joselito Diga, who is the company's CFO. "But it should also be an enabler for decision-making."

A big part of what he wants digitalization and automation to do in Unilab is to generate high-quality information, analysis and recommendations "to help us better partner with a business to deliver value to customers and to enable us to innovate faster," says Diga. The tools that are most useful in this area include "technology that enables us to zero in on trends that customers are looking at."

But technology by itself is not enough. "Obviously, it's not just the technology discussion," says SAP's McLean. "It also covers things like organizational design, business processes being redesigned, and probably more importantly, the people-change aspects."

Diga is also focused on change and people management. "Part of our challenge in finance, especially the finance leadership, is to look at the skillset of our people, anticipate what the future demands might be, and gradually move and train our people to be able to do that work in the future," he says.

Advice to CFOs

Now that the office of finance is getting primed for the digital economy, what should CFOs keep in mind in starting and continuing on with the journey? Some suggestions:

Make sure the volume of transactions justify the investment. "If you talk about automation, it really pays back if you talk about volume," says Volkmar Ahrens, Managing Director at WMD Workflow Management & Document Consulting Asia. If you process only ten invoices a month, it may be a stretch to embark on the journey at this time – unless you anticipate a surge in the number of transactions in the near future from M&A, expansion and so on.

That said, some companies combine the relatively small transaction volumes in each country office and subsidiary and centralize processing the bigger volume in headquarters. This allows for economies of scale and, not incidentally, also gives the finance function visibility into and control over geographically distant transactions while allowing speed and accuracy.

Be clear about the expected gains. SAP's McLean and Unilab's Diga talk about productivity, accuracy, speed, faster monthly closing, business insights, and connectivity to customers and the supply chain as among the benefits of digitalization and automation.

Different organizations will have different priorities, so CFOs must be clear in their mind which of these gains is the main focus. Generating insights, for example, will require software, data sources and talent that are more complicated and far-reaching than, say, gaining accuracy and speed in processing payments.

Decide on the measures for success. Quantifying processing time, error rate, days required for monthly closing and so on should be done before embarking on the digital journey to serve as benchmarks for KPIs after implementation. CFOs should work with the potential vendors and service providers on what KPIs are feasible for their particular organization.

This will also clarify what the solution can and cannot do for the company and possibly serve as basis for costing the product and associated services.

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Don't be afraid of the cloud. Solutions for digitization and automation are cloud-based, more often than not, although on-premise versions are also available. According to industry researcher Gartner, cloud deployment of CRM, HR, payroll and travel expense management has already "become commonplace."

In a survey of 942 respondents (including 230 finance executives) worldwide published last year, Gartner found that 83% of organizations plan to use the public cloud for the majority of their transaction processing by 2017 (14%), 2018 (18%) and 2019 or later (38%).

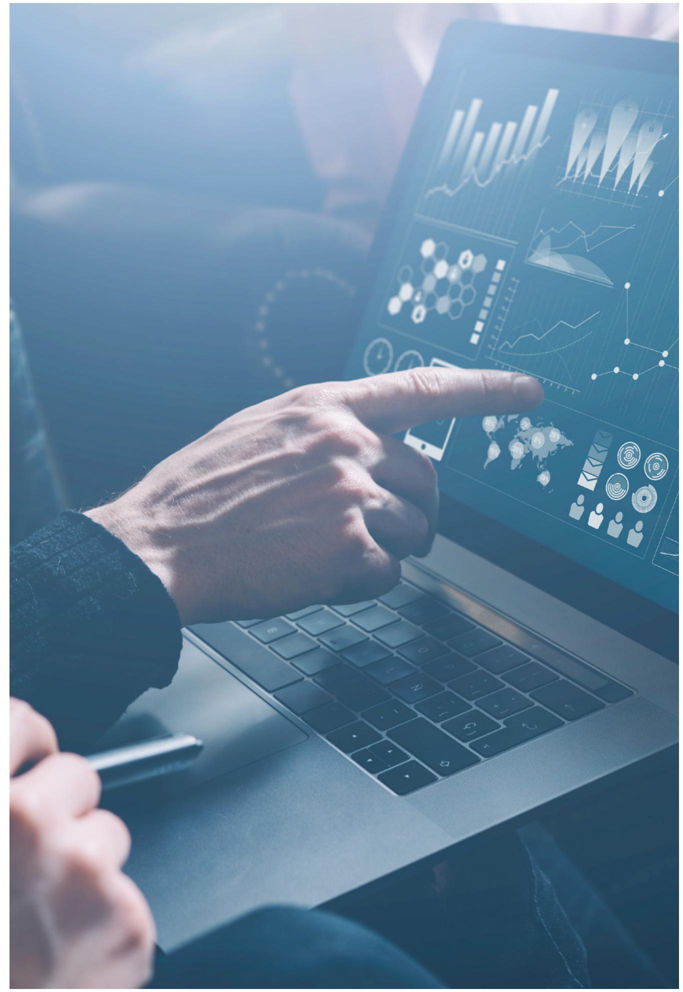
Remain mindful of security. In the same survey, security of cloud transactional applications continued to be the key issue for companies. "We often hear of security concerns, but there are many examples of application requirements, like SEC/XBRL and reconciliation management, where the cloud is the preferred solution," says Gartner.

Not all cloud services providers are created equal, and neither are those that promise to help digitize and automate financial workflows. CFOs and CIOs should do their due diligence.

Don't lose sight of the big picture. Digitization and automation of financial management should not stop at discrete transactional processes like payments and reconciliation. The ultimate goal, as both CFOs McLean and Diga make clear, should be to use the real-time data generated by all business processes, operational as well as financial, to generate insights for forecasting, planning, dynamic pricing, product design and many other functions.

But don't rush before you're ready. CFOs should not let themselves be bulldozed into doing Big Data analytics, for example. "You don't start Big Data when you don't even understand where the demand is coming from," says Binu Azad, Director of Business Analytics and Partner Management for Philips Healthcare.

Including all departments in the digital drive can be tricky because not everyone in the C-suite may be ready to join. Still, when a historically conservative function such as finance is finally climbing aboard the bandwagon, it is only a matter of time before the rest of the organization signs up as well.



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INTERVIEW

Getting Rid of the 'Evils' of Paper and Manual Financial Processes

Volkmar Ahrens,
Managing Director, WMD Asia

"Manual processing is expensive and paper is dangerous," says Volkmar Ahrens, Managing Director at WMD Asia, a workflow management and document consulting provider. He should know. His company has been helping organizations digitalize paper documents and automate financial processes in Europe, North America and now in Asia since 1994.

Ahrens spoke to CFO Innovation about where Asia is in the digitalization and automation journey, the cost and benefits, innovations in financial process automation, and other issues. Excerpts:

What advice would you have for companies as they start this journey of digitalization and automation?

It's not rocket science. There are two evils that you always want to fight: manual processing and paper. Manual processing is expensive and paper is dangerous. You want to get rid of both.

We have so many traditional process here [in Asia] because of central bank regulations. You have to provide a lot of documentation if you want to transfer money. And corporate treasury is very paper-prone.

This whole paper process is no longer relevant. We don't need this paper. You should free your mind from the idea that you can do payments only after I go through my paper stack, which is very much still in the heads of people.

But don't regulators and tax authorities still require paper?

Most Asian countries already accept electronic copies for auditing. But even if the authorities still require paper, there is simply no reason not to use electronic documents internally, but a lot of reasons to get rid of paper altogether.

Out of more than 1,000 of our customers globally, most have managed to ban paper from their financial processes. So you don't need this paper. This very traditional approach is happening only because it has always been the case.

Is digitalization – getting rid of paper – a requirement for automation?

Yes, it comes on top. They go hand in hand. You cannot automate when you have paper documents.

But why should financial processes be automated?

Manual processes are expensive . . . If I have an automated process instead of manual, then I reduce my error rate, my posts become compliant, they become faster, less costly. Once processes are automated, volume is not an issue anymore and processes can easily be consolidated, even across multiple organizations.

Nowadays, you can automate even processes that aren't highly repetitive, because systems have become smarter – even without artificial intelligence. Smarter systems handle your exceptions with high accuracy and reliability.

Where are we in the digitalization and automation journey in Asia?

Many of the local, non-MNC companies are actually at a stage where they are still looking at ERP applications. So they are lagging behind [the multinationals]. Singapore is an exception because of these programs the Singapore government has started, PIC and so forth, to digitize their own non-multinational companies.

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Let's talk about your solutions in this context. You don't do ERP. What you improve are discrete financial systems like AP, invoicing and so on?

More generically, one could say we help companies to automate financial processes. In the broadest sense, this is independent of the ERP system. Most of our customers use SAP, so we have competencies to help in this environment. But it could be any ERP – Oracle, Microsoft Dynamics, it could be any ERP system.

What we try to help is to move manual processes to become automated, to help hardcopy-based processes to become digital.

Is an ERP system required for a company to move from paper to digital, from manual to automated?

I would say yes. Maybe it's only the normal evolutionary path of an organization, that before companies even start thinking about automating their processes, they first think about which data they need and how to use the data. You need the system to keep it together, and Excel does not really serve the purpose.

If you talk about automation, it really pays back if you talk about volume. There's this temporary office center, they run a huge Shared Services Center, three shifts, 300 people to do everything manually. That's not efficient.

Just imagine if you have three shifts of so many accountants doing things manually. How many errors will you see? And as soon as these finance professionals find better paying jobs, they are gone and all the know-how is gone. Then you start all over again.

How affordable are your solutions?

In the end, it's a numbers game. You have three things to make the business case. You have the current costs, you have the volume – what your expectations are about whether this volume will grow or not – and then the cost of the solution.

The cost of the solution has gone down dramatically. There is competition in the market and it's going down further. When we did the first implementation for our solution in Indonesia, it took us six months to even understand how to get relevant data on commercial and tax invoices and how to secure the process. Now, it's technically a five-day effort, and that is reflected in the price.

And as the solution becomes cheaper, it makes sense to put up something like this even for smaller volumes. If I have higher salaries and if I have a cheaper solution that can substitute for some of my accountants, and maybe my volume is increasing, that may be the moment to consider [digitalization and automation] before the organization grows beyond my immediate control.

Are there other benefits in addition to efficiency, accuracy, speed and cost savings?

We have a project which is in conjunction with a company called Invapay, which in turn is cooperating with Visa Card. Invapay offers to take care of vendor invoices and to settle them within the agreed payment terms. It will pay the creditor within a short period, say seven days, in exchange for early-payment discount of, say, 2%.

Meanwhile, the customer has the usual 30 days or 60 days to pay Invapay the full amount. [Invapay earns from the discount.] This is something that makes sense even for companies with small volumes, say ten invoices a week. They maintain good relationships with their vendors because payments come through early and yet they still hold on to their cash for longer.

Another advantage is centralizing financial processes in one place, in cases where invoicing and payments are done in several countries.

Many of our clients run shared service centers, which provide financial services to many legally independent entities. Often, these services are provided on a regional or even global scale.

The effort to automate processes pays back because of the higher consolidated volume of transactions. Consolidating processes becomes only feasible because of the high level of automation, which is generally language independent and allows reduction of local involvement to a bare minimum.

Often, local entities will only have to digitize documents and provide digital approvals via web or mobile devices; the actual accounting tasks are either automated or provided by a central instance. This again allows standardization of processes, transparency and quicker reporting.

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CASE STUDY

Optimizing Working Capital: How NEC Asia Pacific Did It

It took a village for the regional headquarters of Japan's NEC Corporation, information and communications technology provider NEC Asia Pacific, to optimize working capital and gain the additional benefits of full credit utilization, 100% supplier acceptance, and payment automation.

"This implementation was a challenging one as it involves multiple partners," says Finance Director Sandra Kwok. But she and the rest of the finance team are now spending less time on reconciling payments and checking for errors because the payment system is now mostly automated.

NEC Asia Pacific's suppliers, which are largely SMEs, are also receiving their payments ahead of time, Kwok adds – without affecting NEC's Days Payable Outstanding metric. Indeed, DPO days at the regional headquarters is now longer than before, a positive for working capital management.

Paperless environment

NEC worked with WMD Asia, a workflow management and document consulting provider, UK-based payment technology company Invapay, and Singapore bank UOB on its digitalization and automation project.

WMD deployed its xFlow Capture solution to essentially create a paperless environment. Instead of manual inputting of invoice information, which runs the risk of errors and eats up work time, paper documents are scanned by a machine and the information automatically extracted and uploaded to the payment system.

Since the pilot run, the WMD solution "has helped reduce more than 80% of manual-data entry activities, thereby allowing their team members to increase work efficiency and productivity," says WMD Asia Managing Director Volkmar Ahrens.

With its payment system digitalized and automated, the way was open for NEC to also partner with Invapay, which is cooperating with Visa Card, and UOB, which provides NEC's credit line.

Optimizing working capital

Working off the WMD xFlow Capture solution, NEC electronically forwards invoices that it wants Invapay to pay in advance on its behalf, ensuring that NEC suppliers "receive their payments ahead of time so that they can manage their cash flow more effectively," says Kwok.

This service does not cost NEC anything extra. Invapay gets to keep the early-discount payments offered by the suppliers, which can be 2%, for example. Invapay bills NEC for the full amount, but NEC will have the full term period (30 days or 60 days) to pay, which it does by utilizing its credit lines with UOB.

"Our ePayables technology has delivered the required DPO extension along with 100% supplier acceptance, which has enabled NEC to fully utilize all UOB credit lines when settling accounts regardless of the size of the supplier," says Shawn Damon, Commercial Director at Invapay.

It may have taken a village to implement this solution, but everybody – NEC, its suppliers, WMD, Invapay and UOB – wins.