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HOW THE DIGITAL ECONOMY CAN CONNECT AND TRANSFORM FINANCE AND ACCOUNTING

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ABERDEEN

Business resilience and agility has become a topic of interest amidst the economic downturns affecting the world in 2020. This report will review where companies landed after the downturns and focus on how the CFO can leverage the digital economy to connect and transform their finance teams to boost performance — leading their organizations through recovery and onto prospering again.

Introduction

Through the lens of Best-in-Class companies, we will explore the critical capabilities and technology enablers — supported by a centralized finance function and streamlined accounting processes — that are necessary to improve the efficiency of the financial close process. The report will also examine how Best-in-Class companies continue to invest in technology compared to their competitors; particularly, in AI and Machine Learning.

Business Resilience Post Economic Shutdowns

After the recent economic downturns, companies have found themselves, depending on their type of business and location, in one of three phases of business resilience:

- **Survival** – keeping the lights on and doing what's necessary to stay alive as a business
- **Recover** – fixing and repairing what broke in the process
- **Thrive** – preparing for growth and opportunity; adding the pieces that will move the business forward from where they landed after recovery, and further adapting beyond their existing resilience

Businesses must respond with the resilience they currently have in place and / or may need to incorporate new strategies to address any surprises or shortcomings, driving them to *adapt* beyond their existing resilience (which may require additional investments). Aberdeen research indicates

The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- **Best-in-Class**

  Top 20% of respondents based on performance

- **Industry Average**

  Middle 50% of respondents based on performance

- **Laggard**

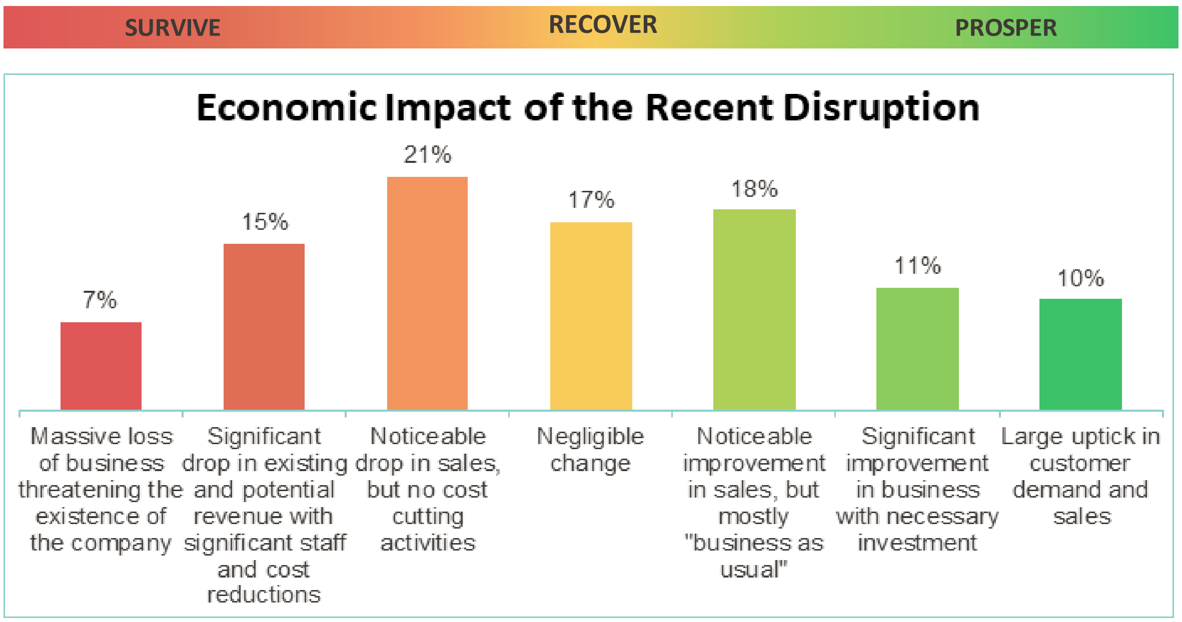
  Bottom 30% of respondents based on performance

- **All Others**

  Remaining 80%: sum of Industry Average and All Others that 70% of companies are able to invest at some level, while 30% find themselves to not be in a position to invest at all.

Figure 1 shows where companies landed after the initial downturns based on their revenues and how that maps to the resilience scale across the top.

Figure 1: Where Companies Landed Post Downturns



Businesses that were forced to close immediately such as restaurants and some retailers are likely to be the most at risk on the left of the chart (survive) due to significant / massive revenue losses. Those in survival mode will be very cash conscious, and fighting to stay keep their business going. These organizations aren’t necessarily not in a position to invest, but if / when conditions do improve, they may shift into recovery mode with the intent of repairing any damage, financial or otherwise, with an eye to the future.

Essential businesses, however, that were able to remain open might have seen some increases in revenue and would be on the right side of the chart (prosper). The majority of companies fall somewhere in the middle of the chart, ranging from some loss of revenue to some level of growth, but more in a recovery state as their business returns to a steady-state level. These companies are more likely to have the ability to invest and fix any immediate issues. Once recovered, these organizations would shift to

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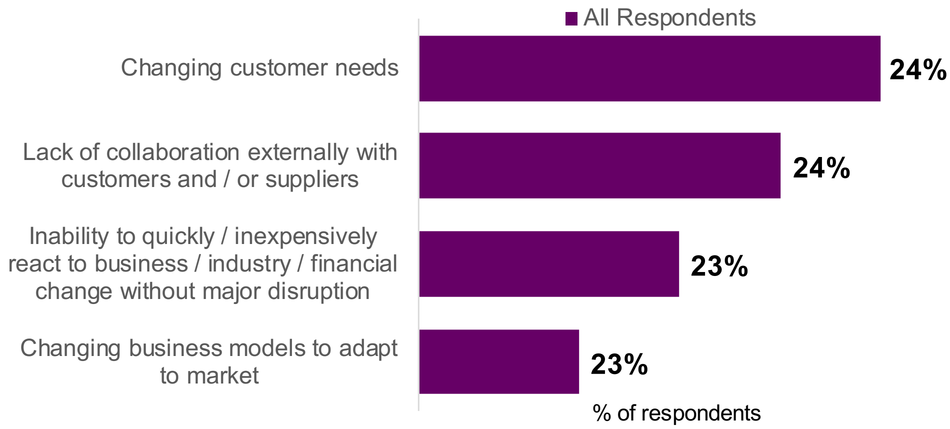
preparing for growth or thriving as the next step. Those that have experienced growth are in a prime position to leap ahead by investing in the future and planning for growth.

Business Pressures Post Initial Lockdowns

Beyond the obvious pressures of further disruptions, the business level pressures facing companies post downturns are shown in Figure 2.

Figure 2: Business Pressures Post Shutdowns



n =219 , Source: Aberdeen, June 2020

Top-of-mind is *changing customer needs*, which will be a factor for all businesses, as everyone has been affected in one form or another. In many cases, the ability to interact with customers directly during the shutdowns has been limited at best with offices being closed and travel being restricted.

The challenge is not just understanding the immediate customers, but also the *customer's customer*. How has their business changed or shifted? Is the demand expected to remain the same? The sooner these questions can be answered, the sooner that confidence in the business will return and companies will feel more comfortable investing.

There is also concern about the ability to quickly adapt and adjust; how strong is the resiliency? And how far can they go in adapting for the longer term? Some of these questions are not clear until the customer questions are fully answered. Exactly how their own business model might change going forward is still an unknown to some degree as companies are starting to recover. Only 57% of companies feel prepared to address the sudden, widespread disruption of normal business operations. Even if companies are resilient, they will need to *adapt* beyond their recovery phase to prepare for the future.

Maturity Class Performance Metrics

Complete and on-time delivery:

- Best-in-Class – 98.0%
- All Others – 88.2%

Internal schedule compliance:

- Best-in-Class – 95.4%
- All Others – 88.4%

Improvement in profitability over the past two years:

- Best-in-Class – 26.6%
- All Others – 10.5%

Improvement in productivity over the past two years:

- Best-in-Class – 26.9%
- All Others – 9.7%

Financial Close: Improve Efficiency / Time-to-Decision

Given the business pressures, it is essential that the financial team is equipped to manage and lead their organization through recovery to prepare for growth. On a positive note, many companies that closed their offices were forced to virtually close their books remotely for the first time since everyone was working from home — *and*, to their pleasant surprise, they realized they were capable of doing so.

As a result, many were forced to take advantage of underutilized capabilities that were already in place. Other companies may have resorted to "brute force" to get it done, but nevertheless, they still made it happen. The silver lining is that finance and accounting teams broke through unknown barriers in performing their close remotely, and now realize they can leverage these capabilities even further.

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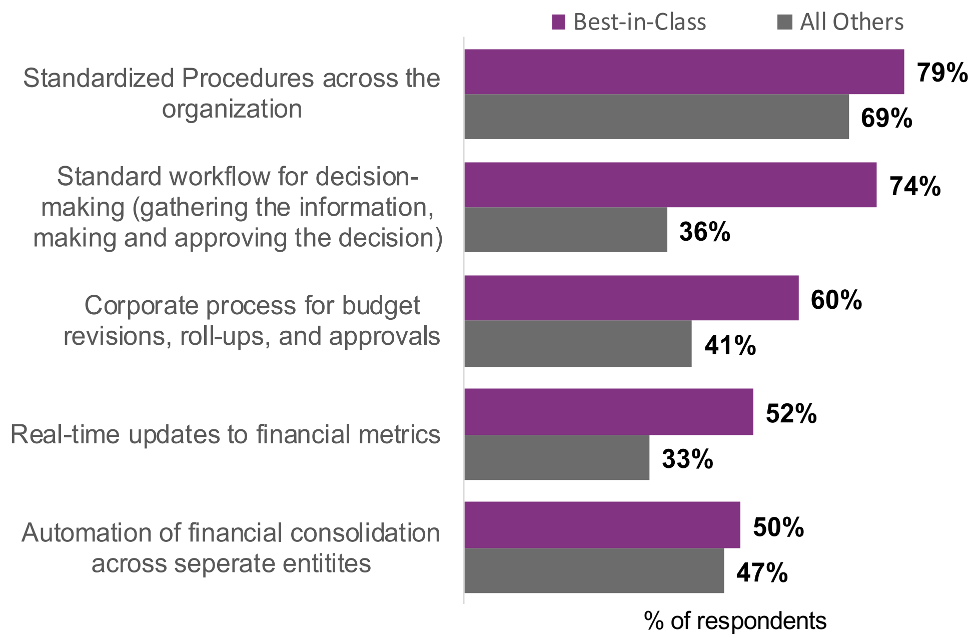
Figure 3 identifies critical capabilities that Best-in-Class companies have in place compared to All Others.

Figure 3: Financial Close Capabilities



n = 314, Source: Aberdeen, December 2020

Standardization of processes across the company is fundamental, but critical to make the financial close happen. Consistency drives repeatable and reliable processes, which improves efficiency and enables automation — two essential elements of digital transformation. The Best-in-Class are also more than twice as likely to have standardized the process of *how decisions are made,* which not only drives efficiency, but eliminates any ambiguity about who is supposed to do “what” and “when.” This eliminates redundant efforts and meetings to define how things should be done. When everyone is on board, efficiency reigns, and processes run smoothly, which is critical in a financial close. Time is of the essence.

The same holds true for corporate processes on revisions, roll ups, and consolidations. Having a repeatable process across the organization enables the streamlining of processes, resulting in “always current data” in the correct form, which leads to real-time updates to financial metrics — ultimately improving the time-to-decision. Realizing that real-time data is always available also enables account consolidations and reconciliations at any time during the month outside of the statutory close process, which alleviates a lot of the month-end data manipulation / congestion that has occurred historically.

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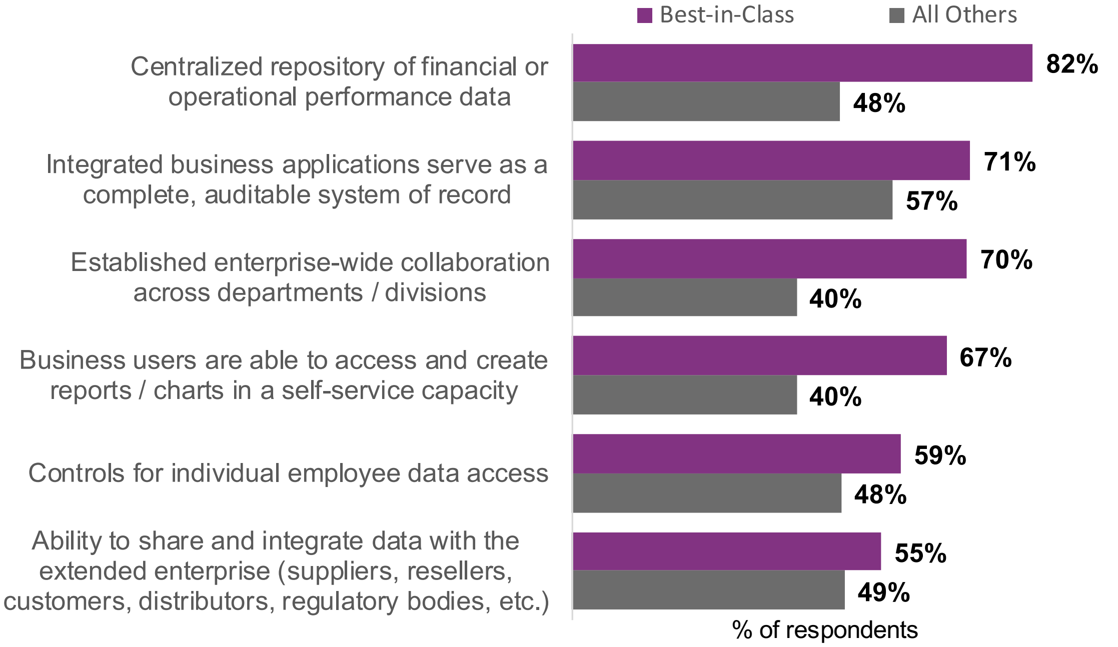
The statutory close is time-period based and can’t be moved, but just reducing many of the data manipulations and account consolidations that had been performed at month end out of habit is a huge improvement. All of the standardization on processes and schedules leads to the automation of the financial close process, which eliminates error prone manual handoffs and delivers more timely and accurate information.

Central Finance

The structure of centralized finance, which in common terms equates to “One Single Version of the Truth,” supports the financial close process. It’s based on a centralized repository for financial and operational data — one version vs. many — across an enterprise for the financial data. Best-in-Class companies are 71% more likely to have this in place compared to All Others (82% vs. 48%), a decisive advantage.

A centralized repository enables transaction replication to improve efficiency and maintain one version of truth. Integrated applications serve as the system of record which is valuable across multiple legacy systems. Having one system of record is extremely important to the majority of businesses, given that 75 % of survey respondents indicated that they have two or more ERP systems operating within their enterprise.

Figure 4: Centralized Finance Capabilities



n = 314, Source: Aberdeen, December 2020

Company-wide collaboration and communication breaks down process and data silos to improve efficiency across the enterprise, but requires one version of the truth so everyone is on the same page. When that occurs, anomalies get resolved. This is another area where the Best-in-Class are far ahead of the competition with 75% greater adoption (70% vs 40%). Collaboration solves problems and can engender support for an enterprise-wide solution. When teams start communicating about issues, problems start getting resolved.

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Self-service means access; it enables timely information access without going through IT. This is one of the breakthrough areas for finance and accounting in partnership with IT. Putting data at the fingertips of the decision makers eliminates many roadblocks to productivity. End-user access to a centralized finance environment eliminates an unnecessary step and filter. By the same token, it's critical that governance and access controls should be religiously maintained, particularly as many organizations have remote workers forced by the downturns, and controls across remote networks with potentially fragmented systems.

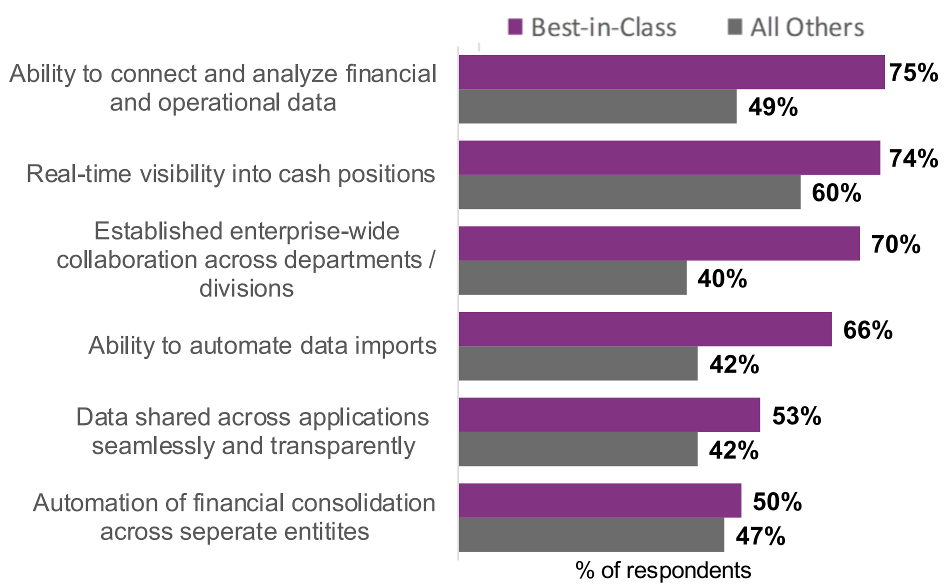
As these early stages of recovery from the shutdowns are underway for most companies, communication and collaboration with key customers, partners, and suppliers is critical. Having a clear understanding of your customers and suppliers is essential to rebuilding the trust and relationships that may have been well established, but need some nurturing due to the shutdowns. Collaboration across boundaries works similarly on an internal level by breaking down barriers and silos to solve problems.

Central Finance: Data Management and Harmonization

Comprehensive data management is critical to a successful centralized finance organization. Managing multiple sources and forms of data is one of the challenges finance and accounting teams must overcome so that their sources are integrated, and data feeds / updates are automated. Another key aspect is the harmonization of data across an enterprise, which enables real-time data, updates, the financial close process, and time-to-decision results. Best-in-Class companies have a significant advantage over their competition in data access, timing, and flow, as shown in Figure 5.

Having access to data as a baseline is essential. Connecting and analyzing financial and operational data is required to provide the insights necessary and the ability to drill down from summary level information to analyze issues is significant productivity advantage.

Figure 5: Data Management Capabilities



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Having access to data as a baseline is essential. Connecting and analyzing financial and operational data provides necessary insights and the ability to drill down from summary level information to analyze issues. This is where the finance and accounting teams can demonstrate their value as strong, reliable business partners as companies prepare for the future.

Real-time visibility into cash is always important, but a must have capability particularly in the survival / recovery phase as companies manage their spending cautiously. Data harmonization and solution integration are important factors to making this happen.

Company-wide collaboration breaks down process and data silos to improve efficiency and solve process problems that always arise as teams seek to improve their connectivity and work towards streamlining across the organization. Automated imports are a fundamental need from an infrastructure perspective that companies must insist upon. If data must be manipulated and handed off from one point to the next in a manual mode, there are multiple points of potential error that could occur.

Automating the source feeds minimizes delays in reporting with the goal of solving the problem one time, rather than dealing with it every time. Automation also plays a role in consolidation across separate entities which is extremely valuable in reporting within time windows and as part of the financial close process.

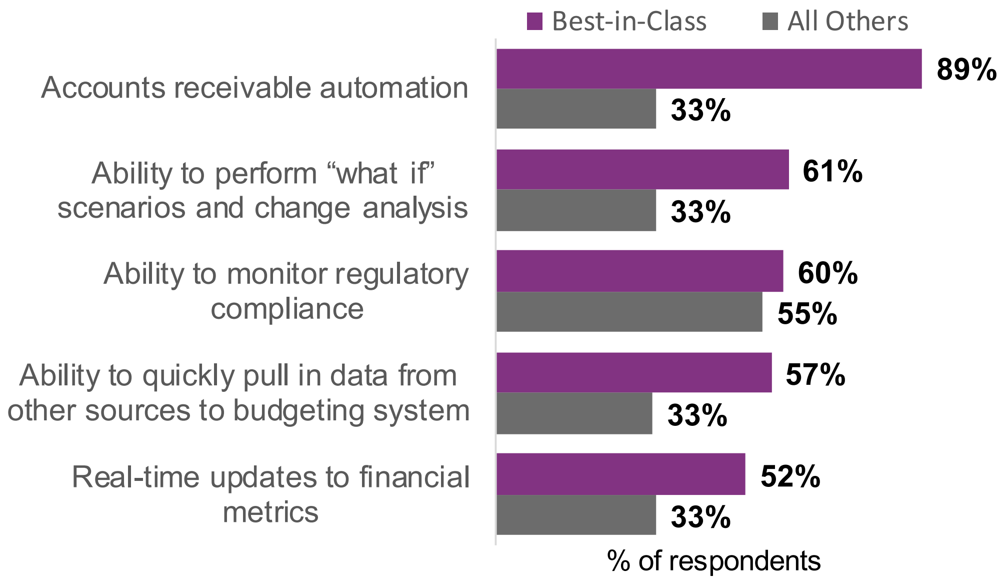
Having the ability to share data across applications eliminates data and process silos, and manual interfaces as handoffs between applications. Sharing in this case can be applied to self-service by decision makers, which enables timely information access without going through IT — a significant productivity boost.

When it comes to data management for centralized finance, there is a *Call to Action* for All Others, who are less than 50% adoption across the majority of capabilities.

Financial Planning and Accounting

Financial planning and accounting are the heart of what the finance and accounting teams are constantly engaged in. Streamlined and standardized accounting processes — the keys to transforming their organizations for improved performance — enable automation and transform organizations for improved performance.

Figure 6: Accounting Process Capabilities



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Automated accounts receivable (AR) eliminates paper and manual supporting processes and leverages digital formats for communication.

Automated accounts receivable (AR) eliminates paper and manual supporting processes and leverages digital formats for communication. Automation can free up the invoice and collections teams, so they can spend more time on analysis, problem solving, and improved customer communication.

On the planning side, "what-if" analysis is a hot topic. For financial planning and accounting teams, automation can free-up time to perform more analysis and test the "plan" with "what-if" scenarios as a value-added process, that can prepare any organization for likely conditions they might expect, so they can model that in the scenarios and develop contingencies to respond.

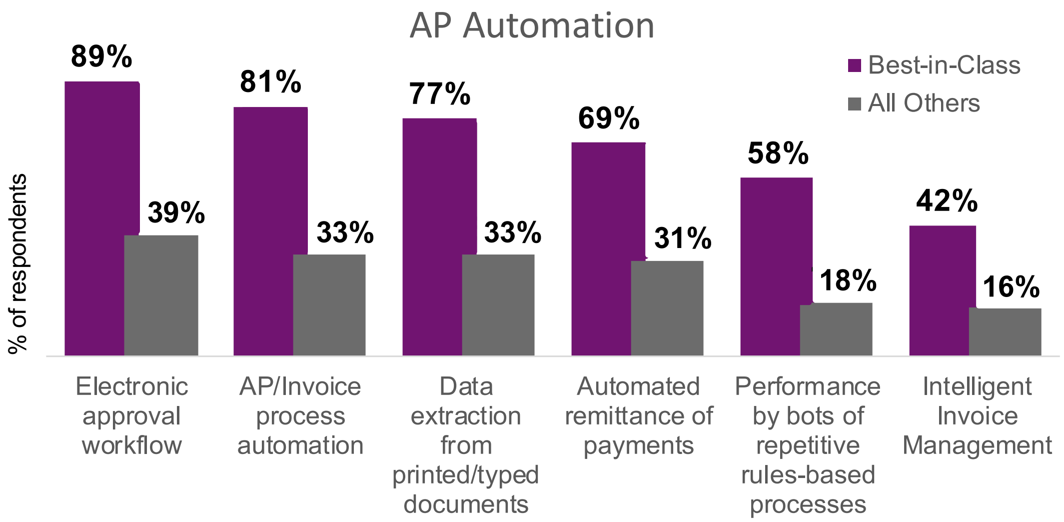
On the planning side, "what-if" analysis is a hot topic. For financial planning and accounting teams, automation can free-up time to perform more analysis and test the *"plan"* with "what-if" scenarios as a value-added process. This helps prepare any organization for likely conditions they might expect, so they can model that in the scenarios and develop contingencies to respond. The ability to monitor compliance to internal and external regulatory reporting requirements keeps companies on top of, and in line with expectations. No one likes surprises here, and it's worth the effort to put a process in place that is informative and can provide some alerts before any limits are exceeded.

The ability to quickly pull in data from other sources is a time saver and productivity enabler, and for planning, it's not uncommon for new information to become available that must be factored into the plan. Should this become a routine request, it should be incorporated into the standard data automation feeds. For FP&A teams, having real-time updates to financials puts data at the fingertips of the decision maker so that they and the organization knows where they stand at all times, financially.

Accounts Payable and Procure-to-Pay

Automated accounts payable (AP) is a key step to digitization and efficiency. AP is typically the most paper intensive process that companies must deal with. Automation of this process can be a huge productivity gain and is a perfect point to start a digital transformation process. Figure 7 shows the capabilities involved.

Figure 7: P2P and Accounts Payables Capabilities



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The Best-in-Class are significantly more advanced than All Others when it comes to AP automation capabilities by a wide margin — 2x-4x in some cases — over All Others. Simplifying operations to free-up resources is an effective action plan for businesses looking to modernize their finance systems when beginning a digital transformation. Digitizing invoices by extracting the data from paper into a digital format is the starting point of streamlining AP department efforts, and then comes automating all the process steps for matching, reviews, and approvals. Using bots to speed up the automation and provide some repeatable decision processes is an advanced step beyond basic automation that saves time and money by augmenting the workforce to carry out repetitive tasks more quickly and efficiently. The automation carries through to the remittance of payments as well. Another productivity enhancer is the use of electronic workflows for reviews and approvals so that all steps in the AP process are managed electronically.

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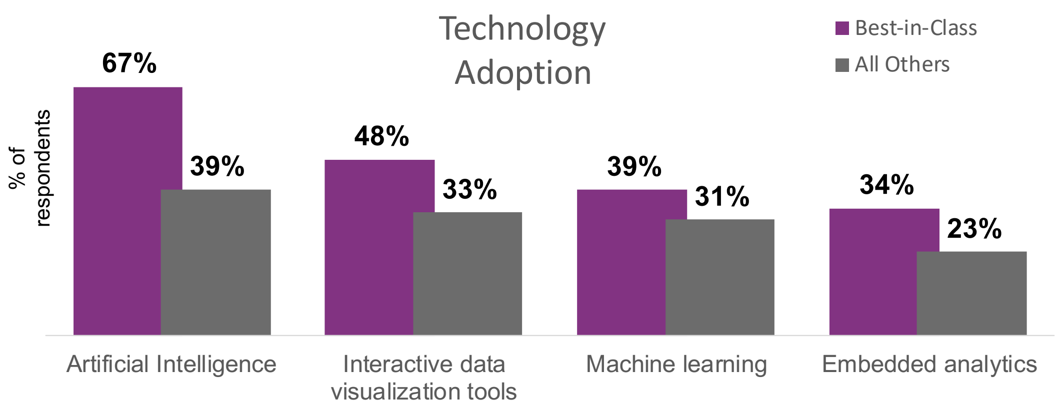
Technology Adoption

As Figure 8 shows, the Best-in-Class are ahead of their competition in leveraging any of the newer technologies such as Artificial Intelligence (AI) and Machine Learning (ML), data visualization, and embedded analytics.

ML in particular is a significant productivity enhancement for any application where users are making decisions within their application. ML "learns" from past decisions and recommends alternatives and predicted results when alerts are made.

Figure 8: Technology Enablers and Investment



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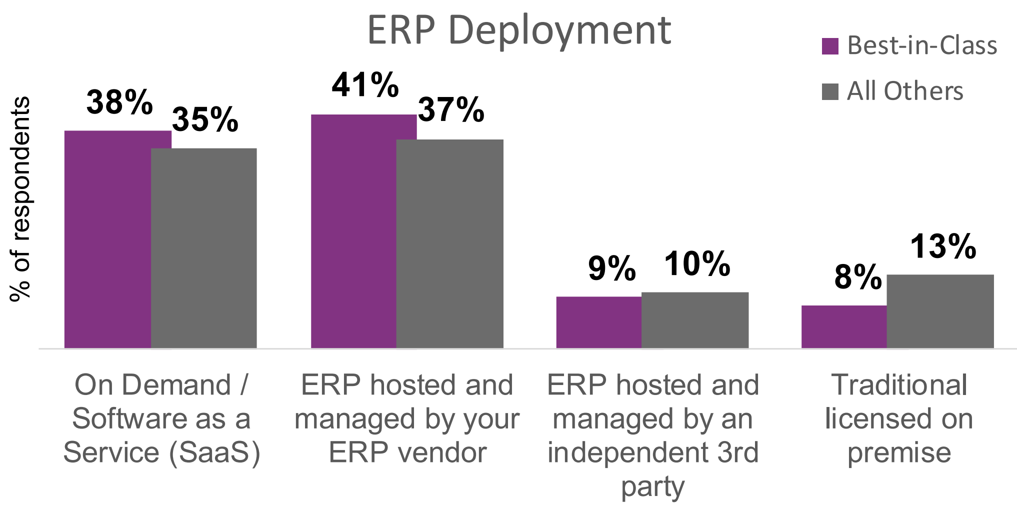
AI has been particularly effective in use cases involving transaction processing by finding anomalies within the data and doing so before the next cycle hits. The challenge for many processes is that the practitioners know "what to do" but don't have the time before the next cycle or day adds more to the pile. AI has been very effective in dealing with these use cases so the work gets done and questions are resolved.

Data visualization is gaining support for providing insights in different ways that allows users to interact with the views, particularly in group meetings where questions can be asked, and responses can be displayed. This is based on the underlying analytics capabilities and may offer an extension for existing analytics solutions.

ERP Deployment: Cloud Adoption

The most telling shift in how companies have deployed their ERP solutions is from "traditional on-premise" to "On demand / SaaS" (Figure 8). For the Best-in-Class, that number is now down to 8% on-premise to 38% on-demand. There are options for the ERP provider to provide hosting as well as third party options that would both fall under the heading of a hybrid option.

Figure 8: Deployment of ERP Solutions



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The key takeaway is that companies continue to migrate to the Cloud for deployment, often driven by the total cost of ownership issues and concerns over staying abreast of emerging technology.

Summary and Key Takeaways

Business resilience and agility have become top-of-mind for all companies worldwide amidst the economic shutdowns that have occurred in 2020. Recent Aberdeen survey data indicates that over 2x of companies have experienced revenue declines vs. those that experienced or expect to experience increases in revenue. Understanding where companies landed after the downturns helps outline the path for the CFO to connect and transform their finance / accounting teams to lead and support their organization through recovery to prospering again.

Best-in-Class companies lead the way with centralized finance capabilities to support an efficient financial close and perform reconciliations at any time during the month, while improving their efficiency in the statutory close process. Their superior data management, integration, and automation of central finance workflows define the roadmap for connecting and transforming their organizations.

Streamlined accounting processes play a key role in the digital transformation as well. AP Automation is an example of what digital transformation looks like with significant improvements in efficiency and productivity overall for procure-to-pay (P2P) teams.

Continued investment in technology along with a cloud-based approach to new technology enables companies to adopt a modern and intelligent ERP approach, even as they recover from the downturns and closures. Aberdeen recommends following the path forward established by the Best-in-Class to prepare for thriving again as businesses return to a steady state and opportunities materialize.

Related Research

- *Financial Services: Making Informed Decisions with Improved Transparency*: May 2019
- *Why Now is the Time to Elevate Your Business with an EPM Cloud Suite*: October 2019
- *How a Connected Back-Office Drives Businesses Forward: Unite HR and Finance to Boost Productivity and Profitability: October 2019*
- *Banks and Financial Institutions Must Modernize and Future Proof Their Back-Office for Better Decisions and Improved Performance: April 2020*

About Aberdeen

Since 1988, Aberdeen has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen is headquartered in Waltham, Massachusetts, USA.

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