



The New Value *Integrator*

*Insights from the
Global Chief Financial
Officer Study*

Executive Summary

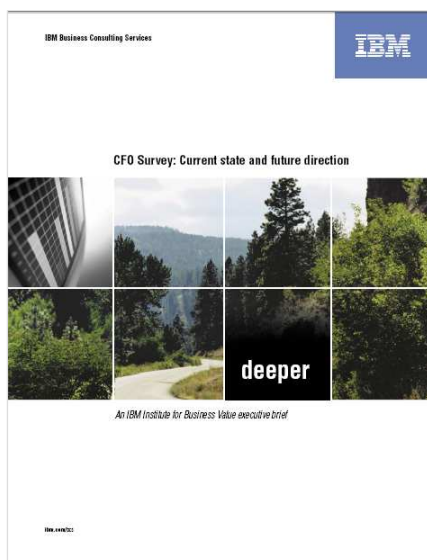
CFO club

21.5.2010

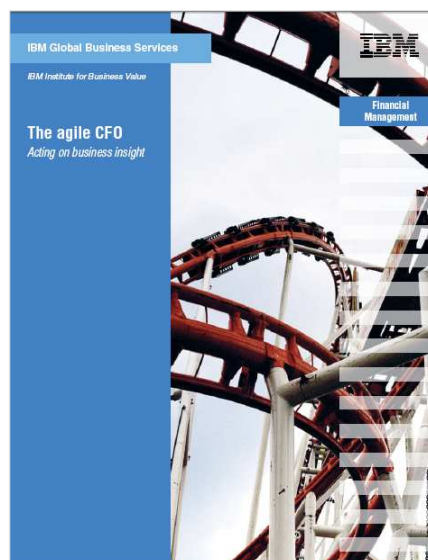
Ondřej Žák

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

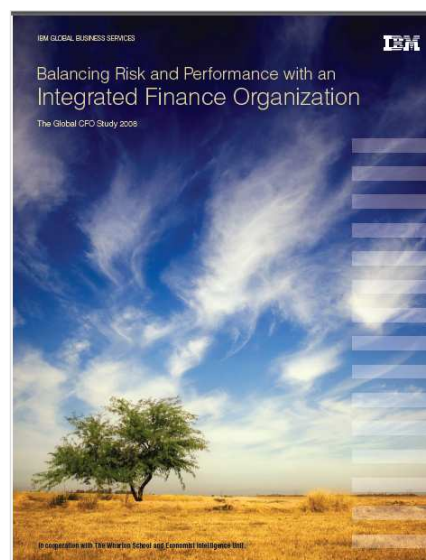
CFO Studies



2003



2005



2008



2010

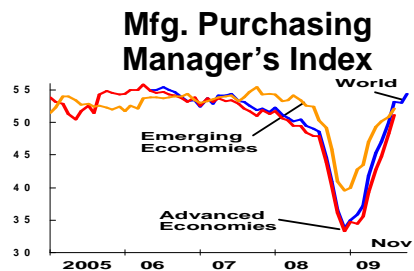
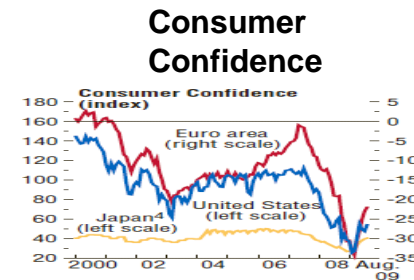
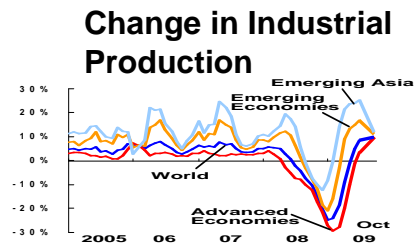
Our study was conducted at the height of the economic crises and comes to market as signs of a new economic environment emerge

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



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

Source: IBM Institute for Business Value; Based on IMF Global Economic Outlook Sep. 2009, CPB Netherlands Bureau for Economic Policy Analysis 24 Dec. 2009, JP Morgan Global Manufacturing PMI (Jul 2006 – Dec. 2009)

The study examines how the CFO can make the enterprise smarter in an era of increased uncertainty

CFO Study 2010 Provocative Topics



The impact of the New Economic Environment on the CFO's role



What Finance model achieves the optimal mix of capabilities needed to outperform?



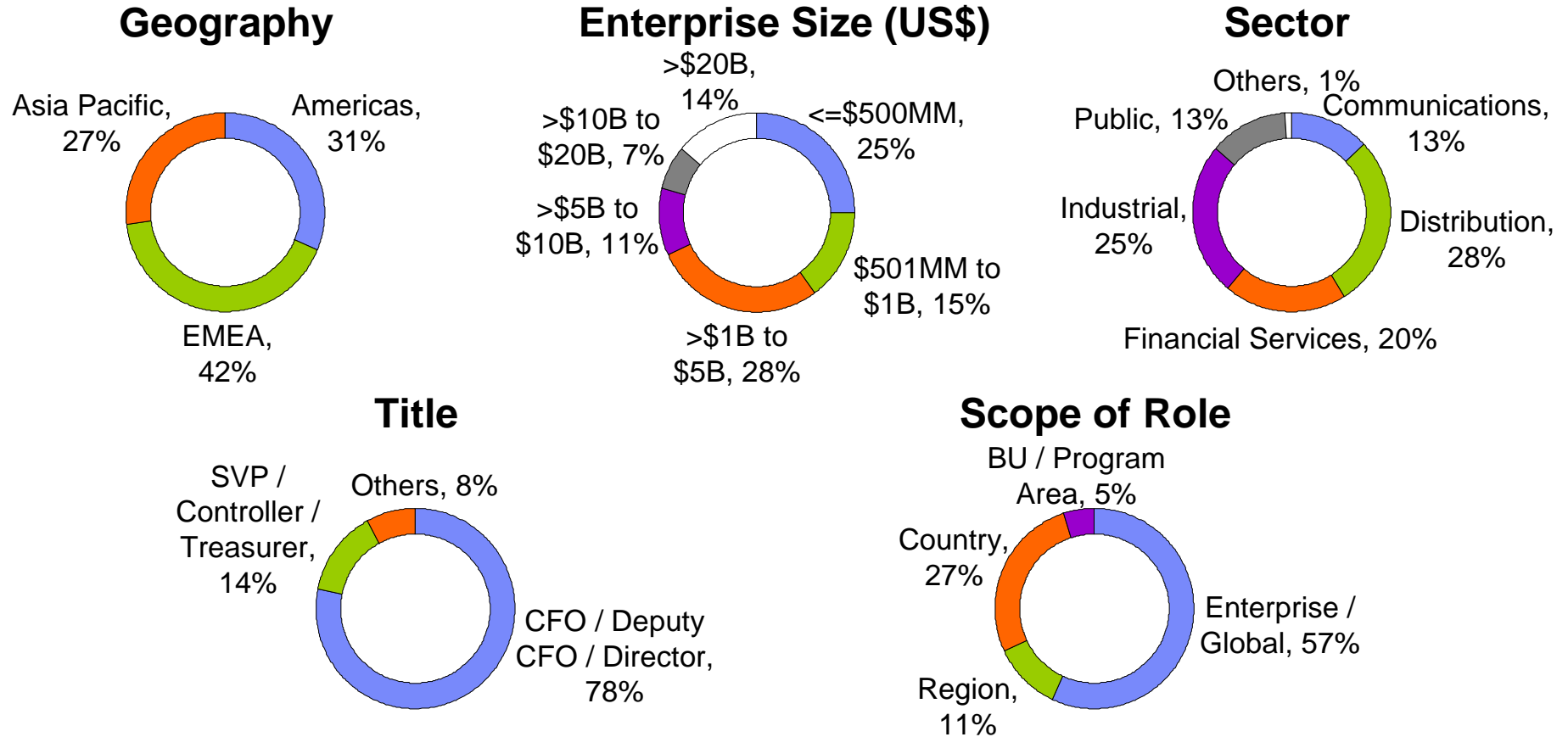
What can CFOs do to enable timely and informed decision-making?



How can the CFO help the enterprise anticipate and shape its environment?

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

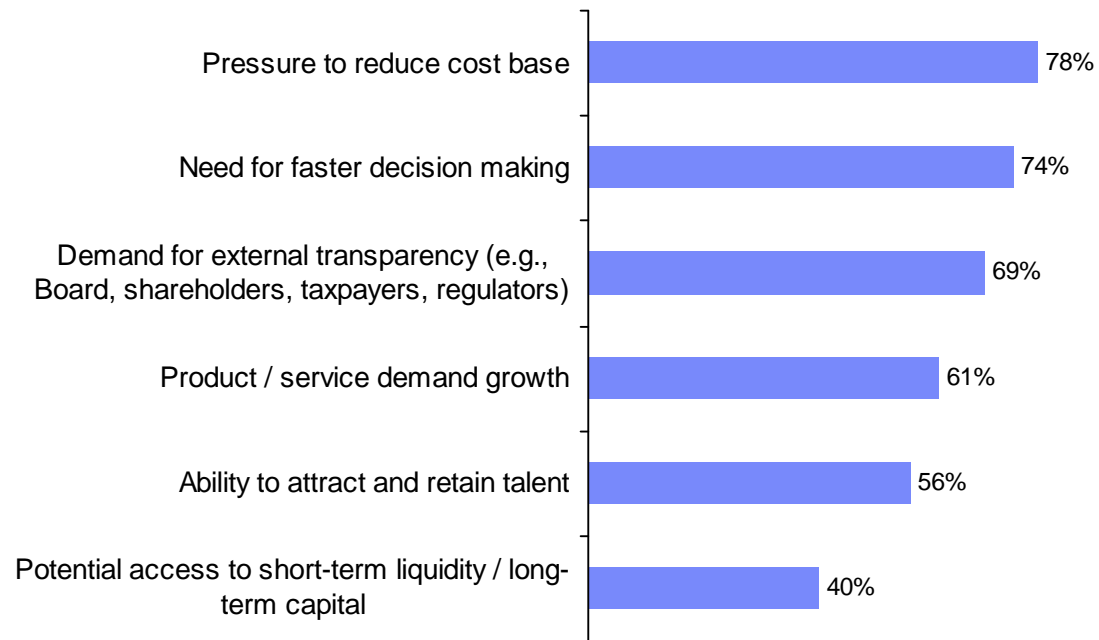
CFO Study 2010 Firmographics



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

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.***

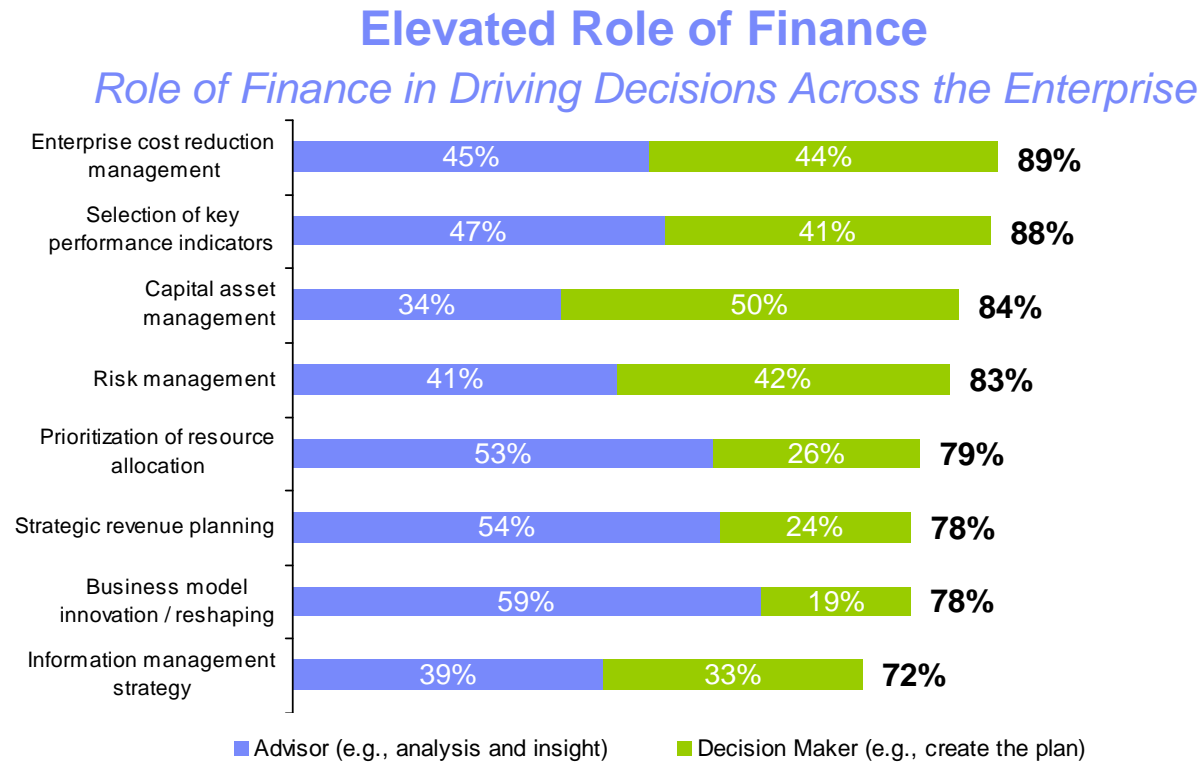
N = 1,844 to 1,905

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] 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



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)

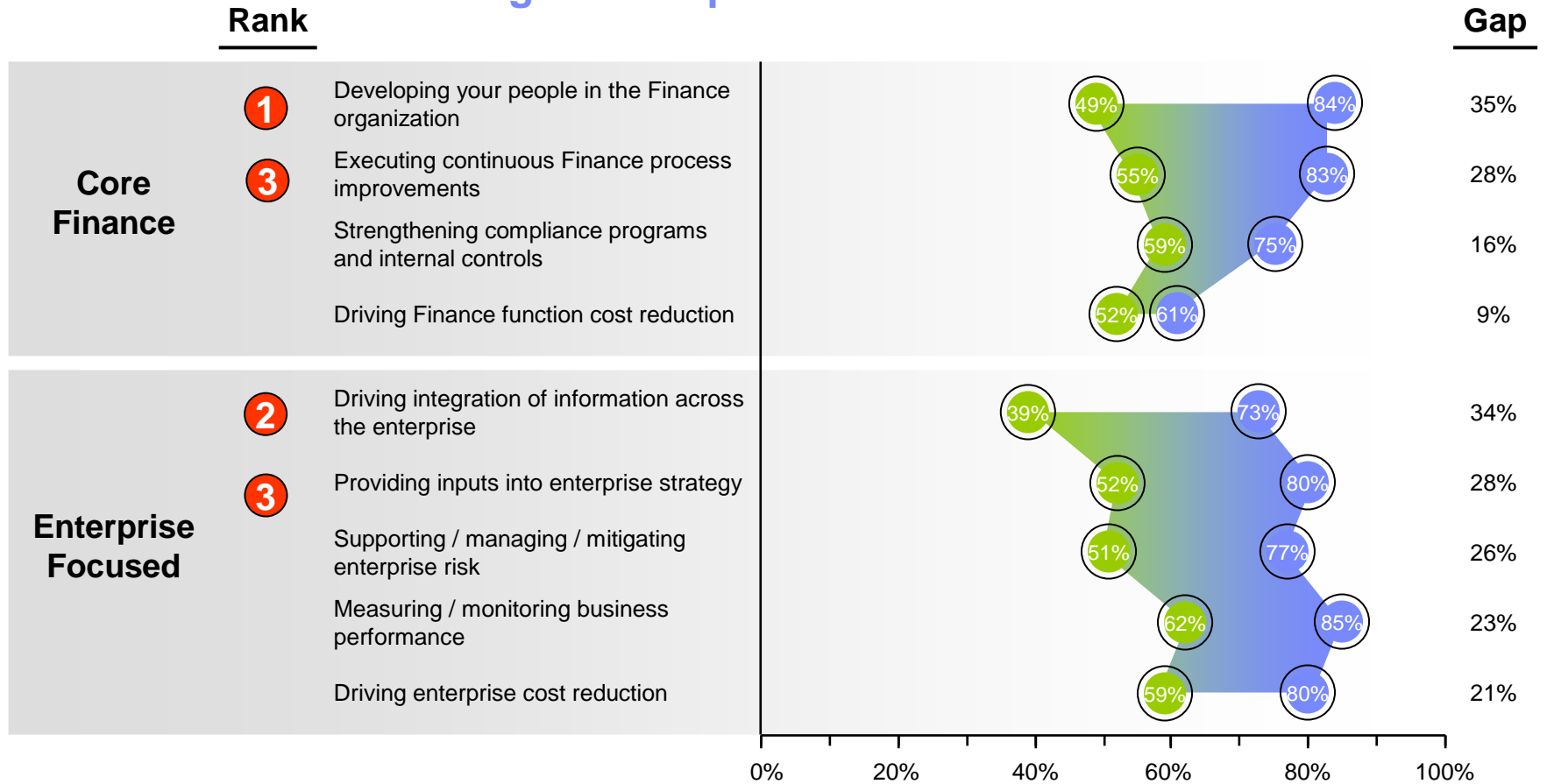
Note: Respondent choices included No Role, Informer, Advisor and Decision Maker

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

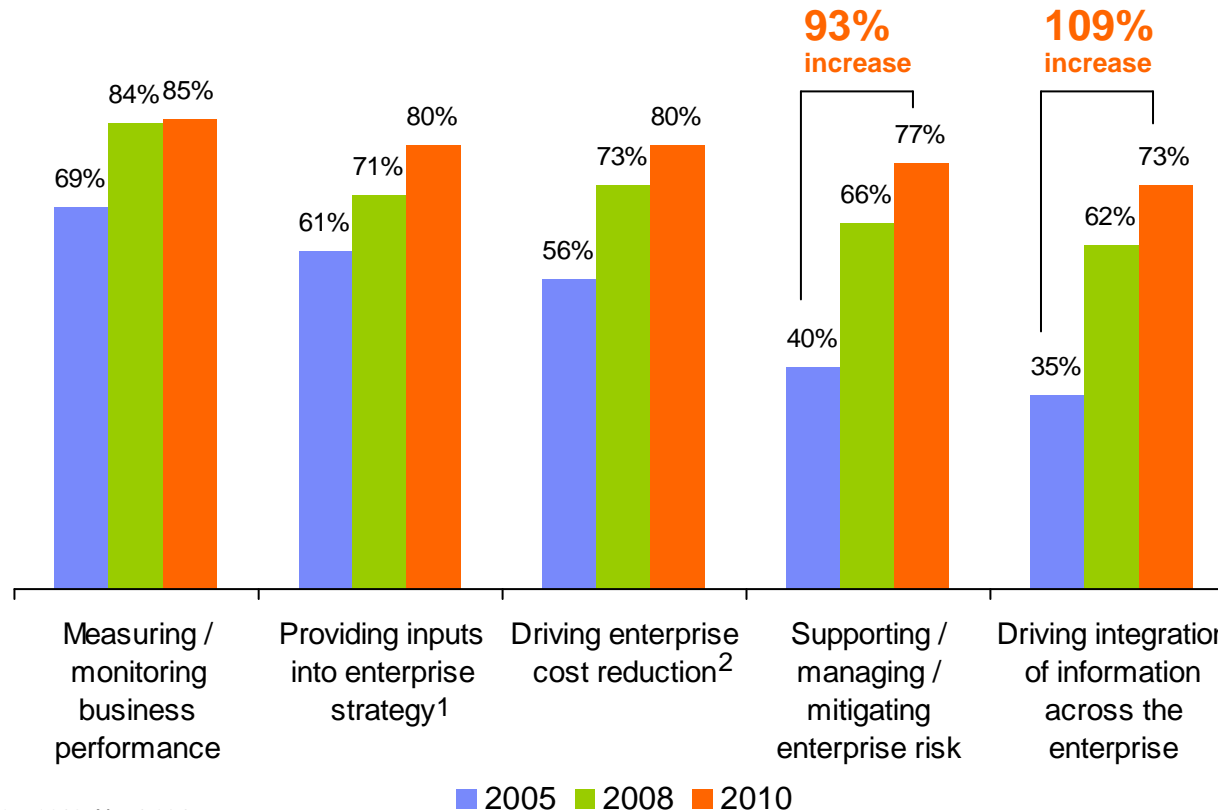
● Importance
● Effectiveness



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 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

Enterprise focused activities have accelerated in importance for CFOs over the past five years – some dramatically

Importance of Enterprise Focused Activities Over Time



2005: N = 844, 2008: N = 1,195, 2010: N = 1,904

Note: 2005 uses "High" importance, 2008 uses [5] Critical and [4] Important and 2010 uses [5] Critical and [4] which indicates moderately critical

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

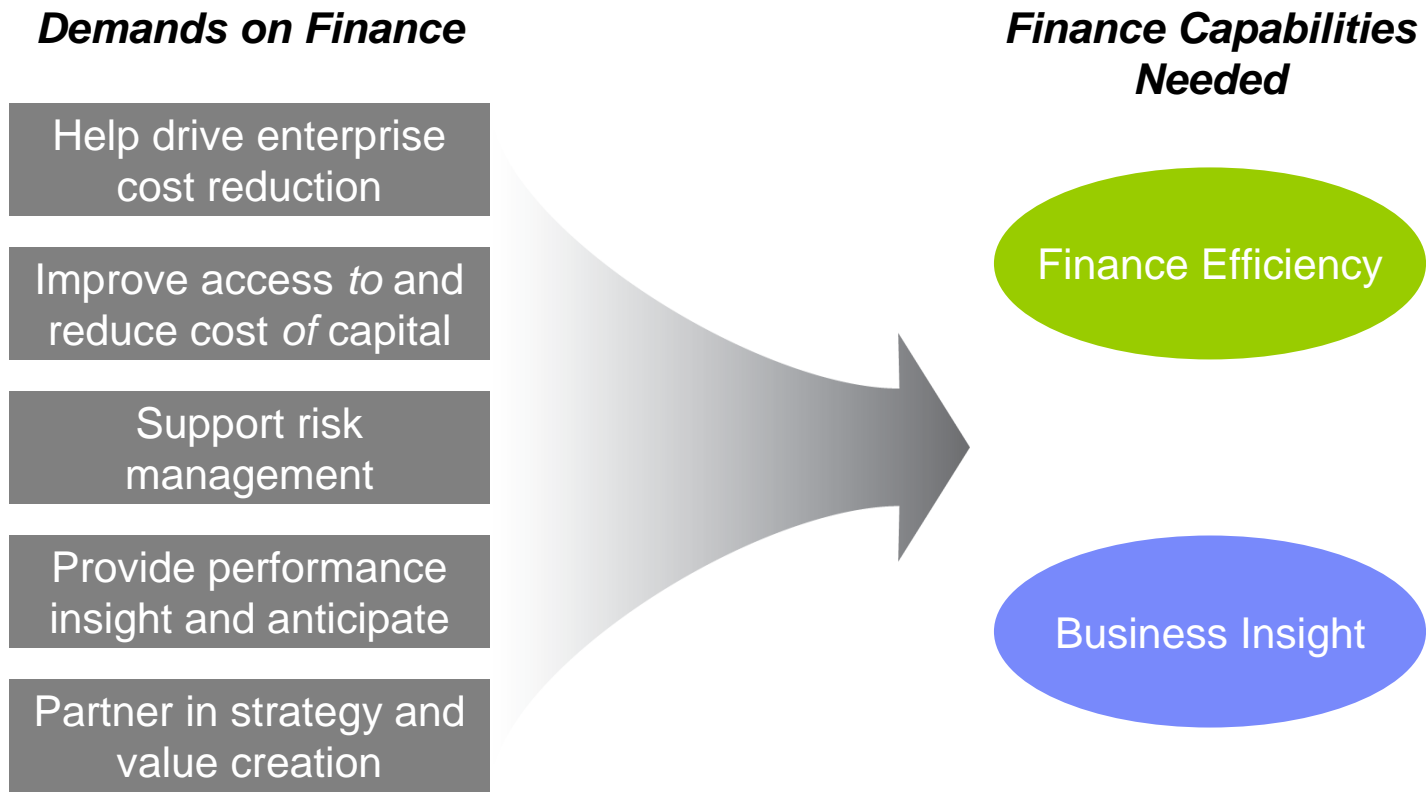
¹ 2005 defined as "Partnering with your organization to identify and execute growth strategies" and 2008 defined as "Inputs into identifying and executing growth strategies"

² 2005 defined as "Driving cost reduction" and 2008 defined as "Driving cost reduction"

Source: IBM Institute for Business Value, The Global CFO Study 2005, 2008, 2010

A broader enterprise focused role requires core Finance efficiency be in place to reliably support business insight and decision making

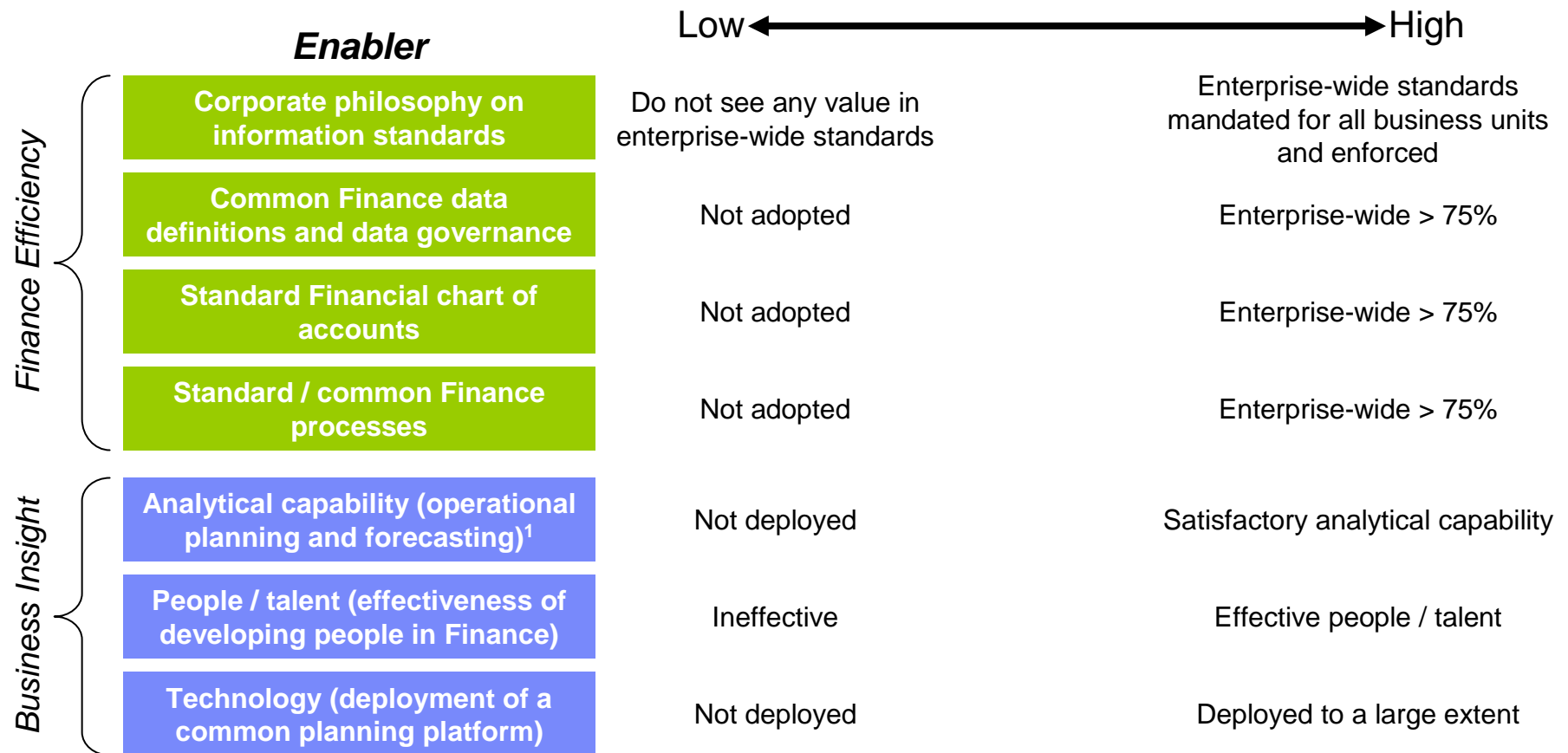
Addressing the Broader Enterprise Focused Role of Finance



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

Analysis of CFO responses and objective enterprise financial measures identified enablers to deliver efficiency and insight

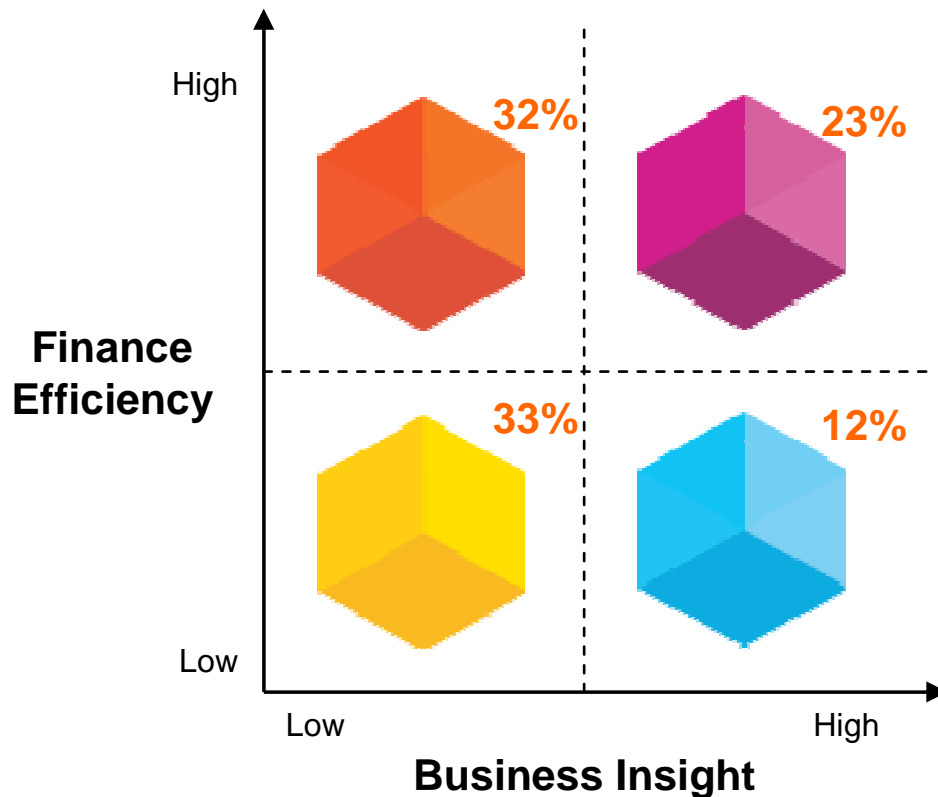
Finance Efficiency and Business Insight Enablers



¹ Also analyzed Scenario Planning, Predictive Analytics
 Source: IBM Institute for Business Value, The Global CFO Study 2010

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

Finance Profiles

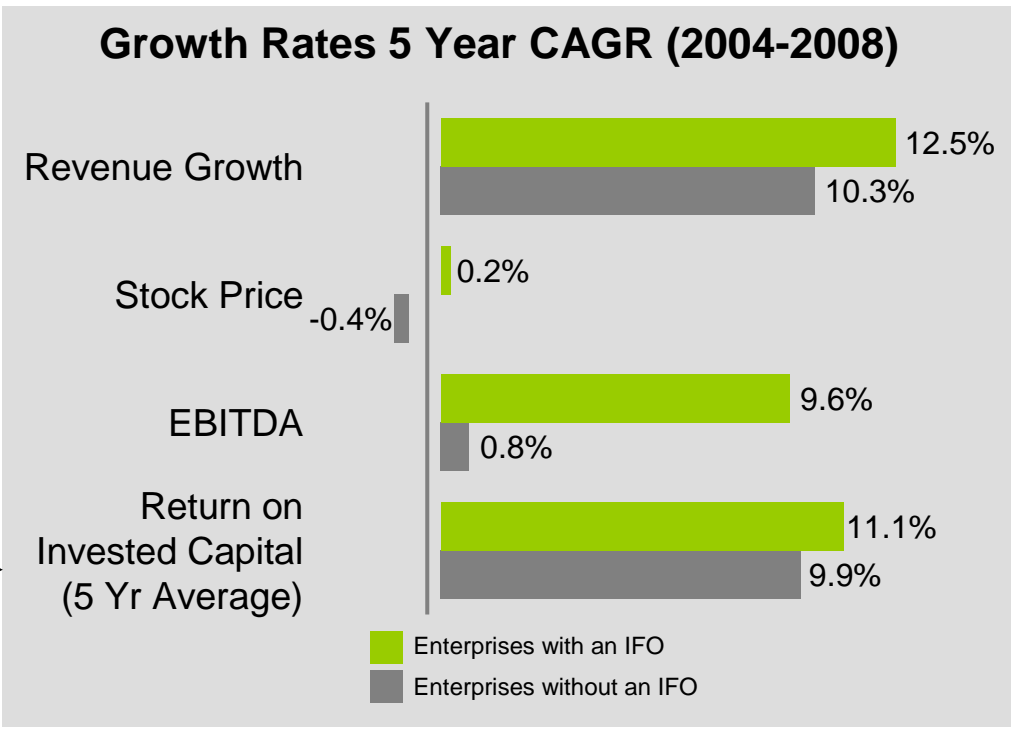
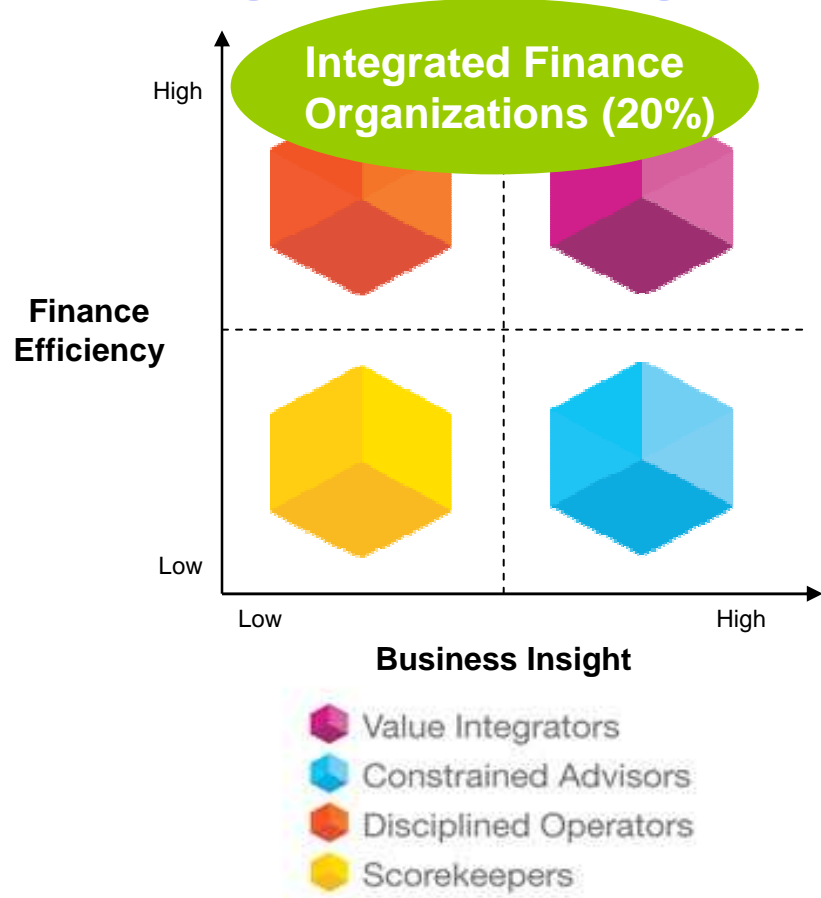


- Scorekeepers**
 - Data recording
 - Controllarship
 - Multiple versions of the “truth”
- Disciplined Operators**
 - Finance operations focused
 - Information provision
 - Performance interpretation
- Constrained Advisors**
 - Analytics focused
 - Sub-optimal execution
 - Fragmented data
- Value Integrators**
 - Performance optimization
 - Predictive insights
 - Enterprise risk management
 - Business decision making

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

IBM's CFO Study 2008 revealed that enterprises with Integrated Finance Organizations are rewarded for their high "efficiency"

Integrated Finance Organizations and the Finance Management Models

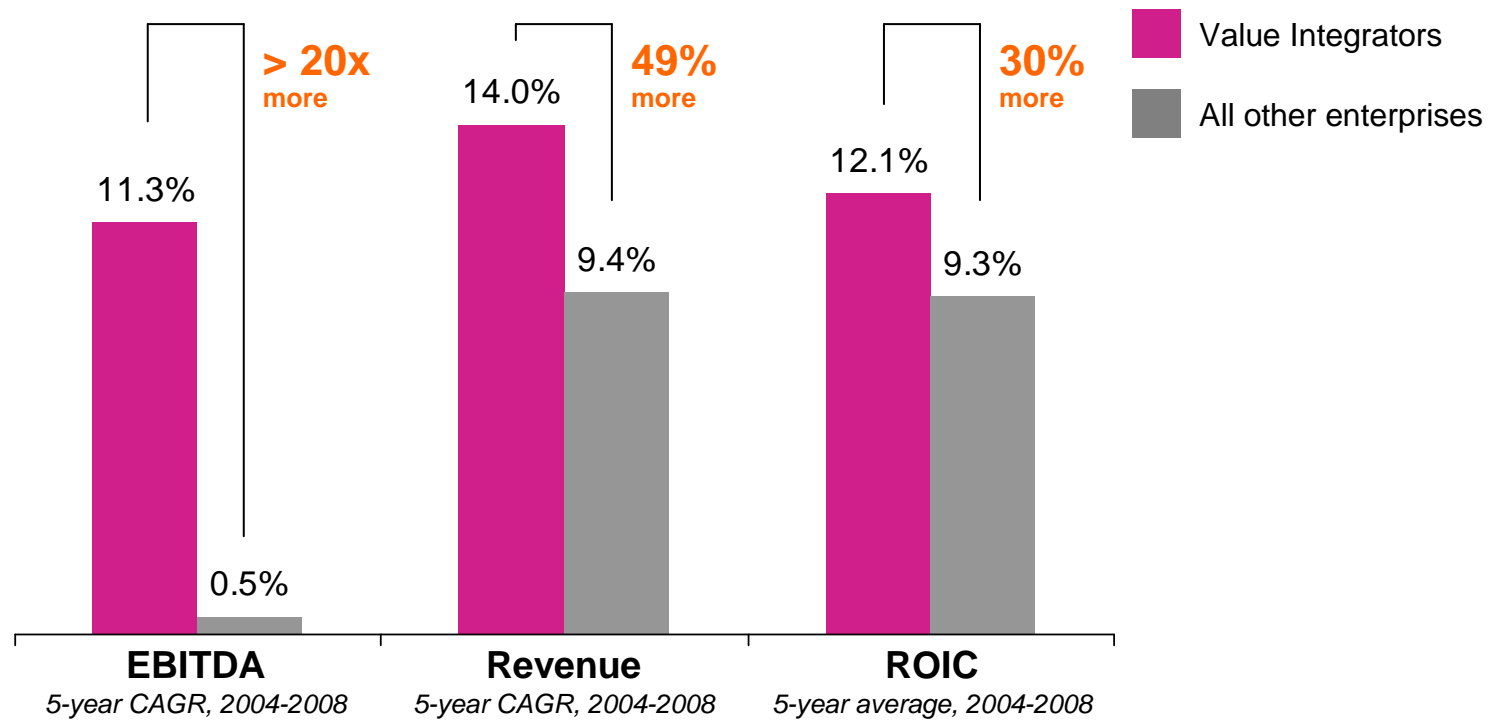


❖ *Our 2010 study affirms enterprises with an IFO continue to be rewarded financially.*

Revenue Growth: N = 745; Stock Price: N = 704; EBITDA: N = 698; ROIC: N = 791
 Source: IBM Institute for Business Value, The Global CFO Study 2010

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

Efficiency + Business Insight Contributes to Outperformance

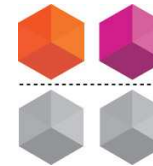


Value Integrators also have an almost 20% better operating efficiency ratio than all other companies examined.

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

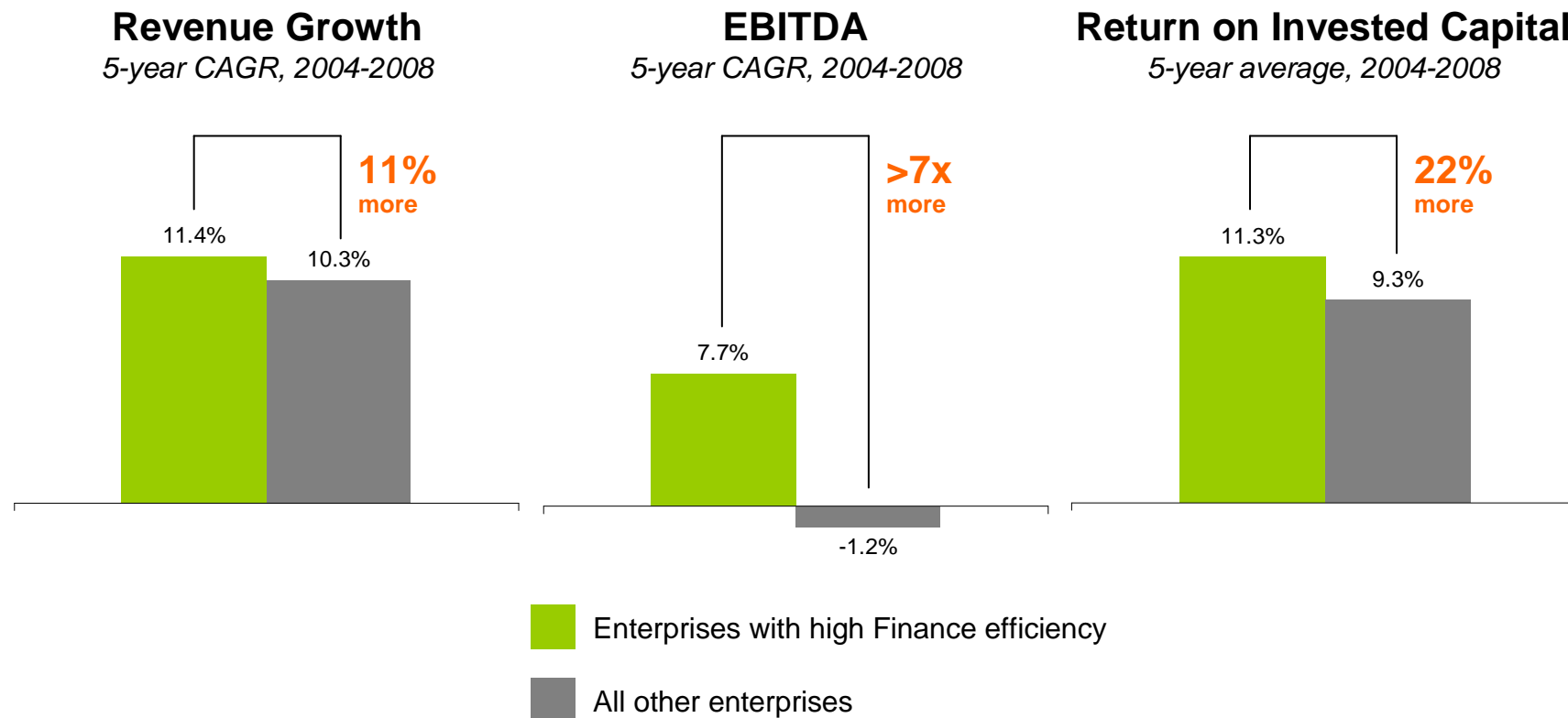
Finance continues to spend nearly 50% of time on transactional activities

Over 35% lack a common reporting platform

Over 25% lack the necessary common data definitions and processes

Enterprises with better Finance efficiency are rewarded financially

Finance Efficiency Contributes to Financial Outperformance

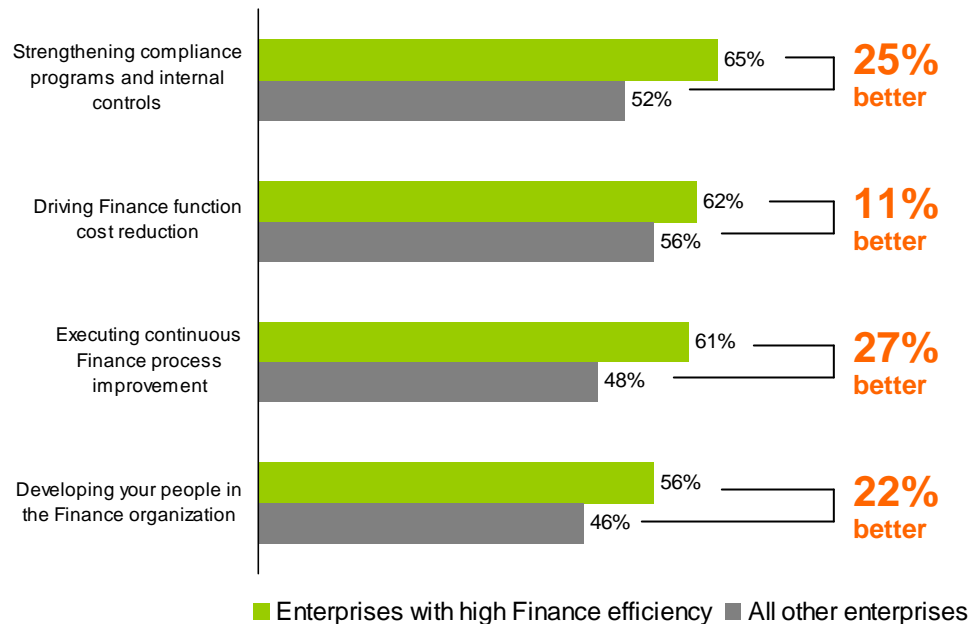


Revenue Growth: N = 745; EBITDA: N = 698; ROIC: N = 791
Source: IBM Institute for Business Value, The Global CFO Study 2010

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

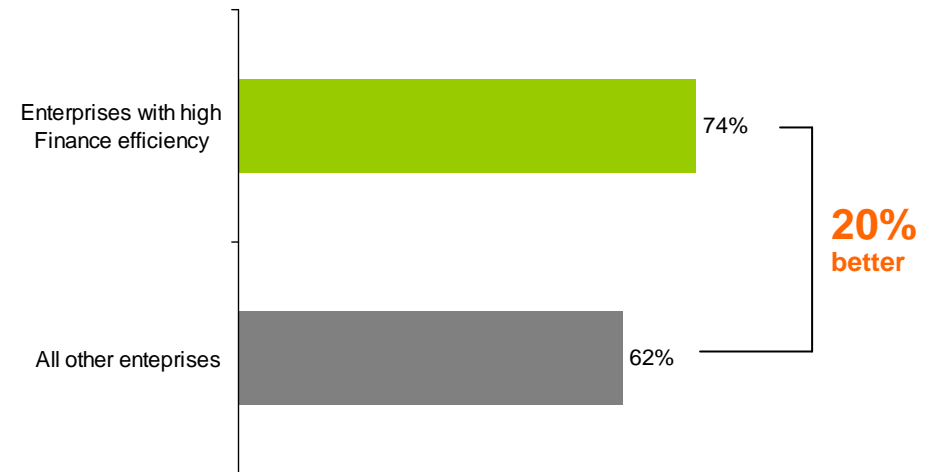
Effectiveness Benefits of Finance Efficiency

Effectiveness Against Core Finance Activities



N = 1,867 to 1,880
 Note: Defined as those enterprises selecting [5] Very Effective or [4] 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

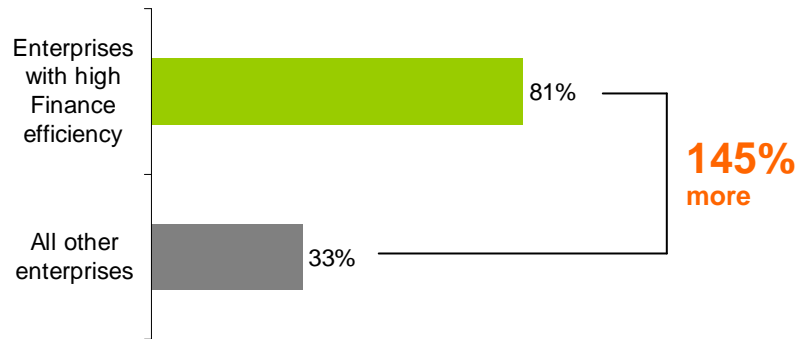


N = 1,883
 Note: Defined as those enterprises selecting [5] Very Well or [4] on a 5-point scale where [5] Very Well and [1] Very Poorly

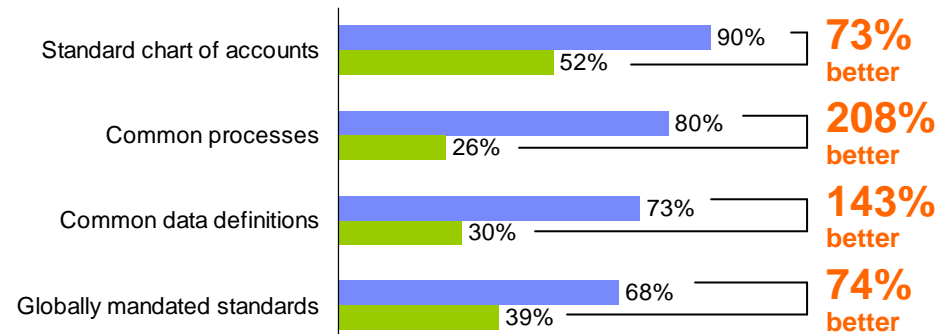
Enterprises that establish process ownership are far more likely to achieve the standards that enable Finance efficiency

Accelerator: Process Ownership

Adoption of Process Ownership



Impact on Standards *Percent adopted enterprise-wide > 75%*



■ Enterprises that have implemented process ownership enterprise-wide
 ■ All other organizations

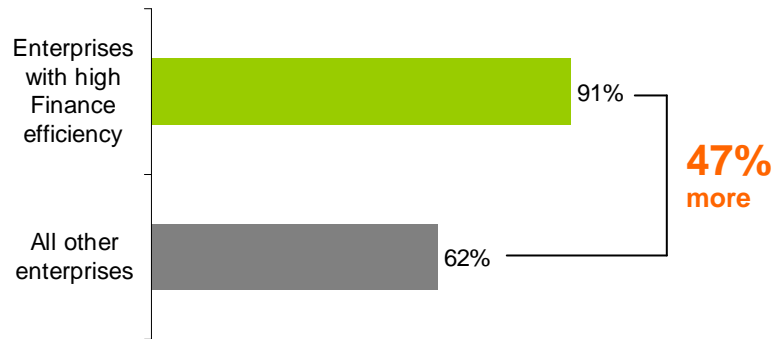
N = 1,869
 Note: Defined as those enterprises selecting >50% adoption rate
 Source: IBM Institute for Business Value, The Global CFO Study 2010

N = 1,863 to 1,889

A common technology platform drives a greater adoption of standards

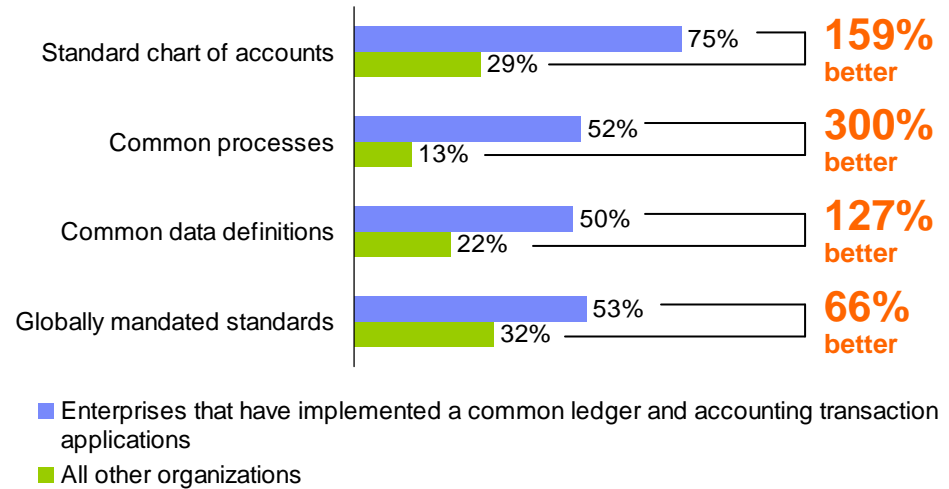
Accelerator: Common Ledger and Accounting Transaction Applications

Implementation of a Common Ledger and Accounting Transaction Applications



N = 1,875
 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

Impact on Standards Percent adopted Enterprise-wide > 75%

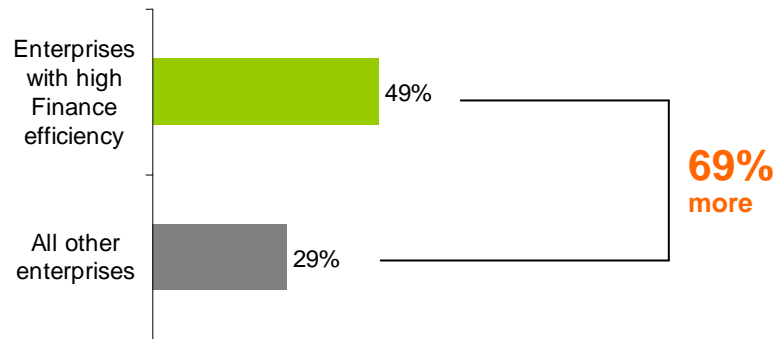


N = 1,852 to 1,880
 Note: Defined as those enterprises selecting [5] To a very large extent or [4] on a 5-point scale where [5] To a very large extent and [1] Not at all

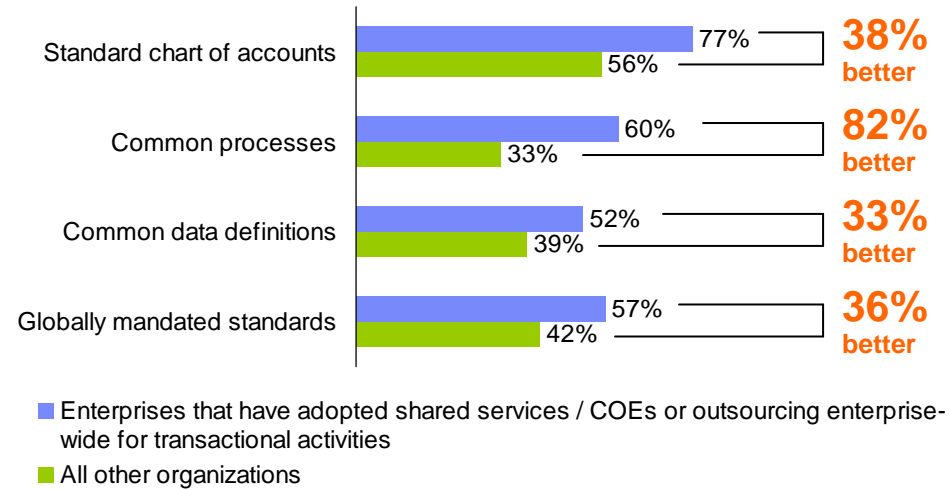
Alternative delivery models enforce the adoption of standards

Accelerator: Alternative Delivery Models for Transactional Activities

Enterprise-wide Shared Services / Centers of Excellence or Outsourcing Adoption



Impact on Standards Percent adopted enterprise-wide > 75%



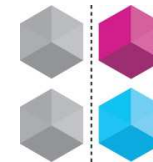
N = 1,892

Note: Defined as those enterprises selecting Enterprise-wide where choices included Enterprise-wide, Line of business consolidation, Country / regional-based, Not adopted
Source: IBM Institute for Business Value, The Global CFO Study 2010

N = 1,863 to 1,887

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 |
|--|--|--|

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

The majority of enterprises are not able to effectively deliver business insights due, again, to structural complexity

Business Insight Challenges

Nearly 50% lack a common planning platform

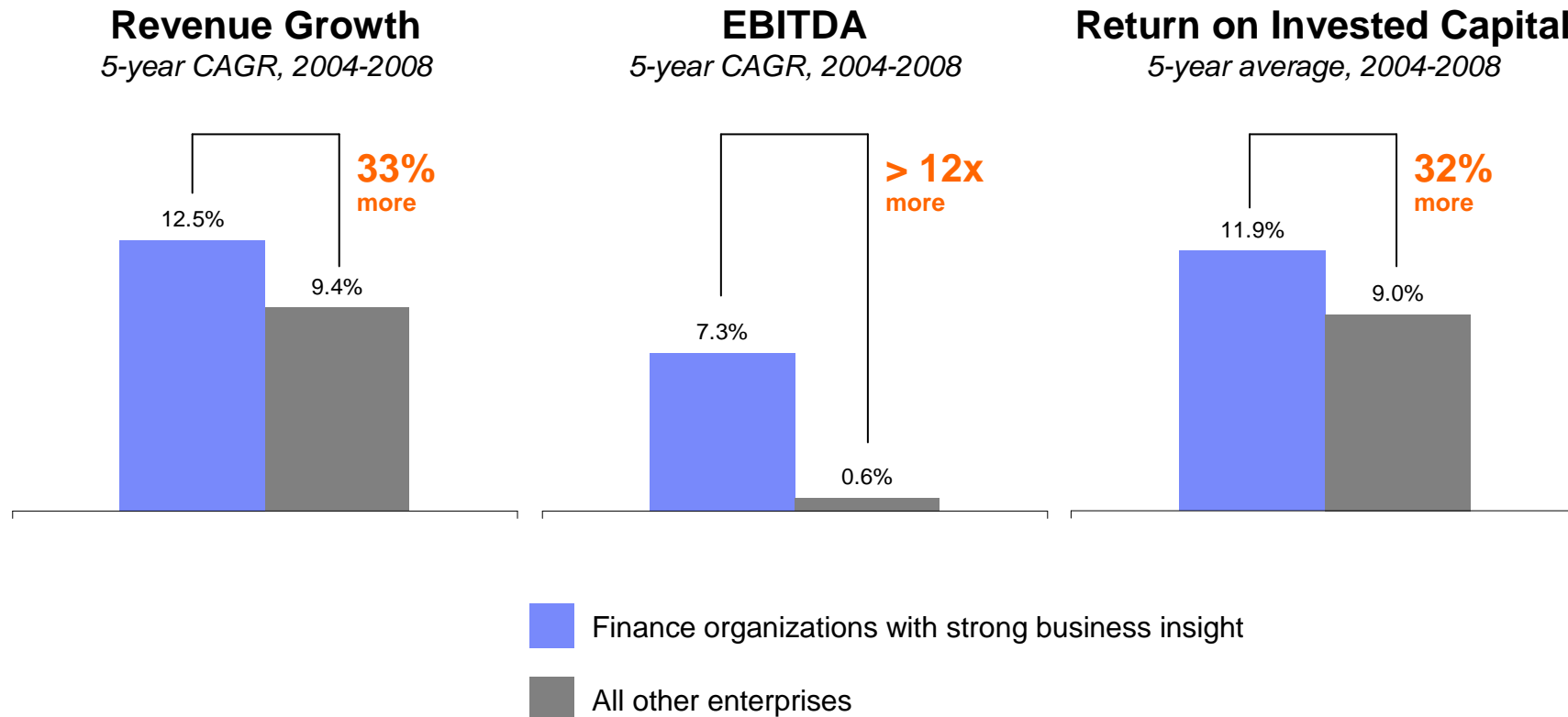
55% not satisfied with their operational planning and forecasting analytical capability

Over 50% manually produce operational metrics

44% are poor to average at anticipating external forces

Objective financial data validates that decision making supported by business insight contributes to enterprise outperformance

Business Insight Contributes to Financial Outperformance

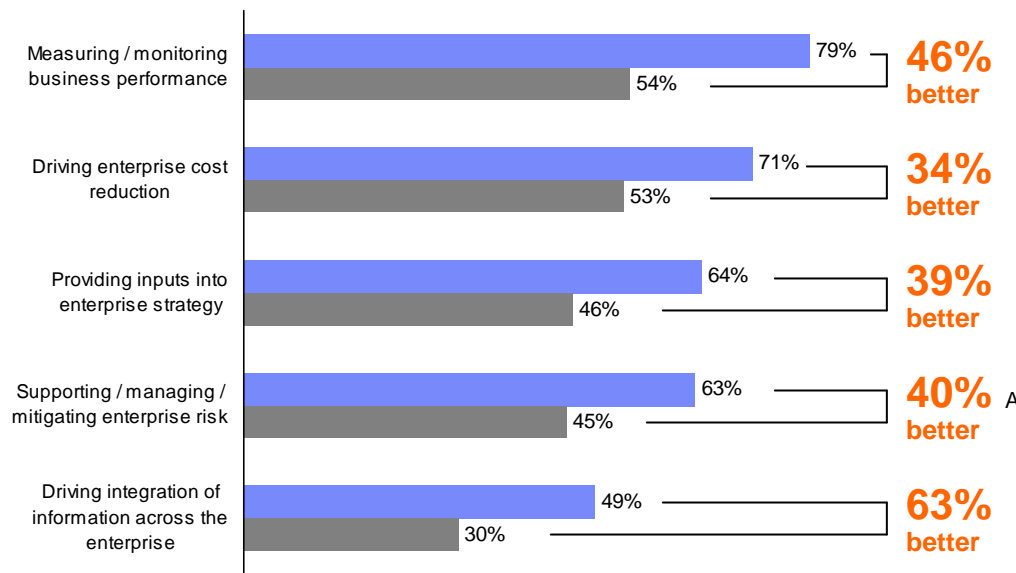


Revenue Growth: N = 580; EBITDA: N = 435; ROIC: N = 606
Source: IBM Institute for Business Value, The Global CFO Study 2010

Finance organizations with strong business insight are performing better

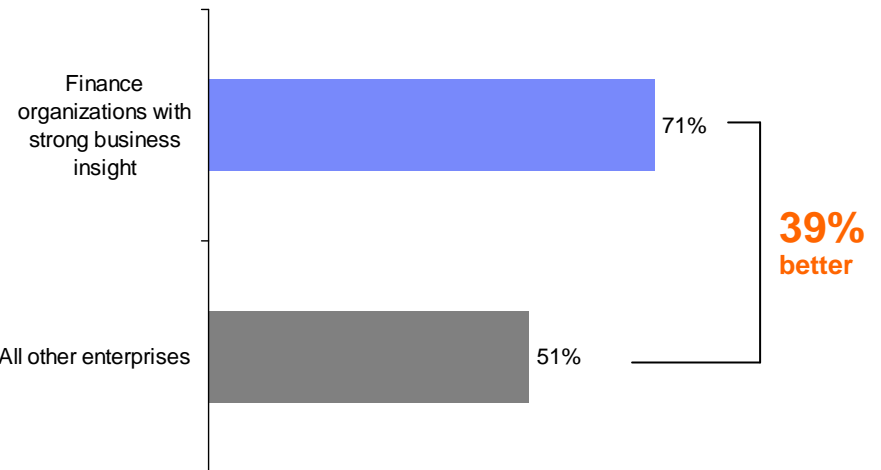
Effectiveness Benefits of Business Insight

Effectiveness Against Enterprise Focused Activities



■ Finance organizations with strong business insight ■ All other enterprises

Business Insight Helps the Enterprise Anticipate External Forces

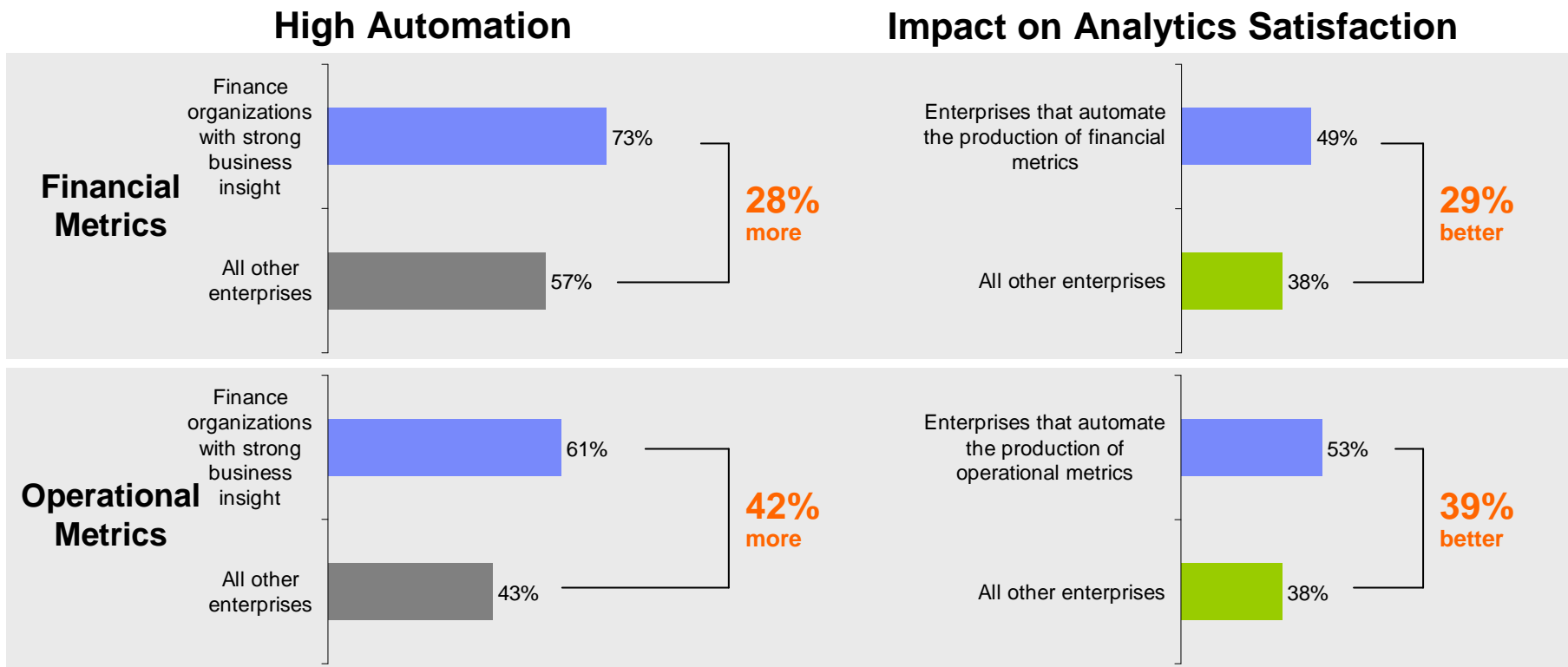


N = 1,458 to 1,469
 Note: Defined as those enterprises selecting [5] Very Effective or [4] on a 5-point scale where [5] Very Effective and [1] Ineffective
 Source: IBM Institute for Business Value, The Global CFO Study 2010

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 have automated production, are more efficient, and facilitate speed of insight

Accelerator: Timely Metrics



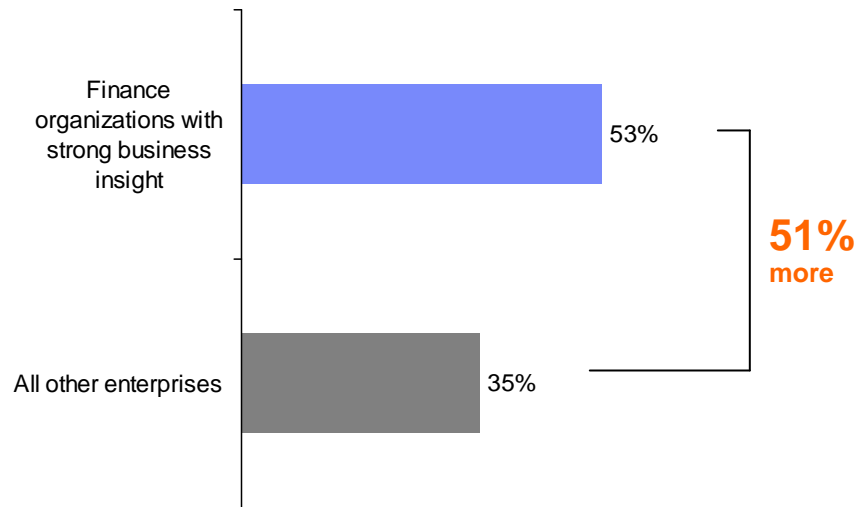
Financial: N = 1,463; Operational: N = 1,435
 Note: Defined as those enterprises selecting [5] Largely automated or [4] on a 5-point scale where [5] Largely automated and [1] Largely manual
 Source: IBM Institute for Business Value, The Global CFO Study 2010

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

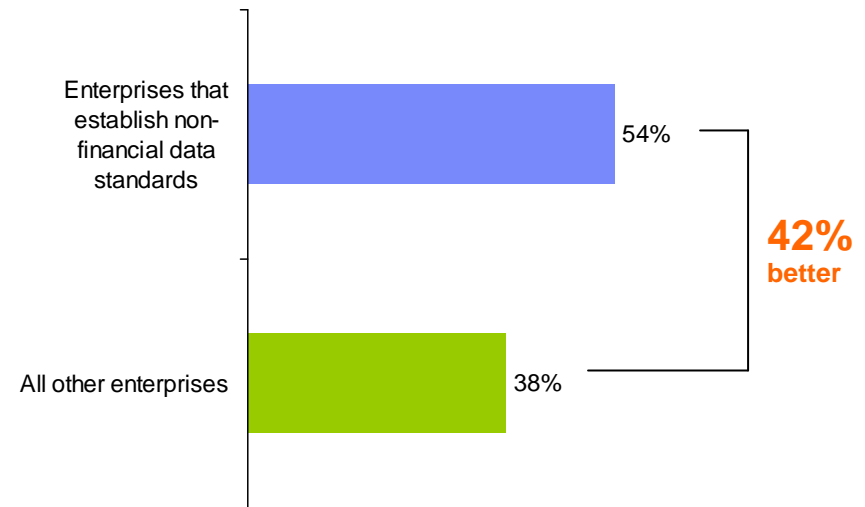
Finance organizations with strong business insight establish operational data standards, providing common “truth”-based insight

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

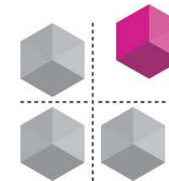
Theme #3

- 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*

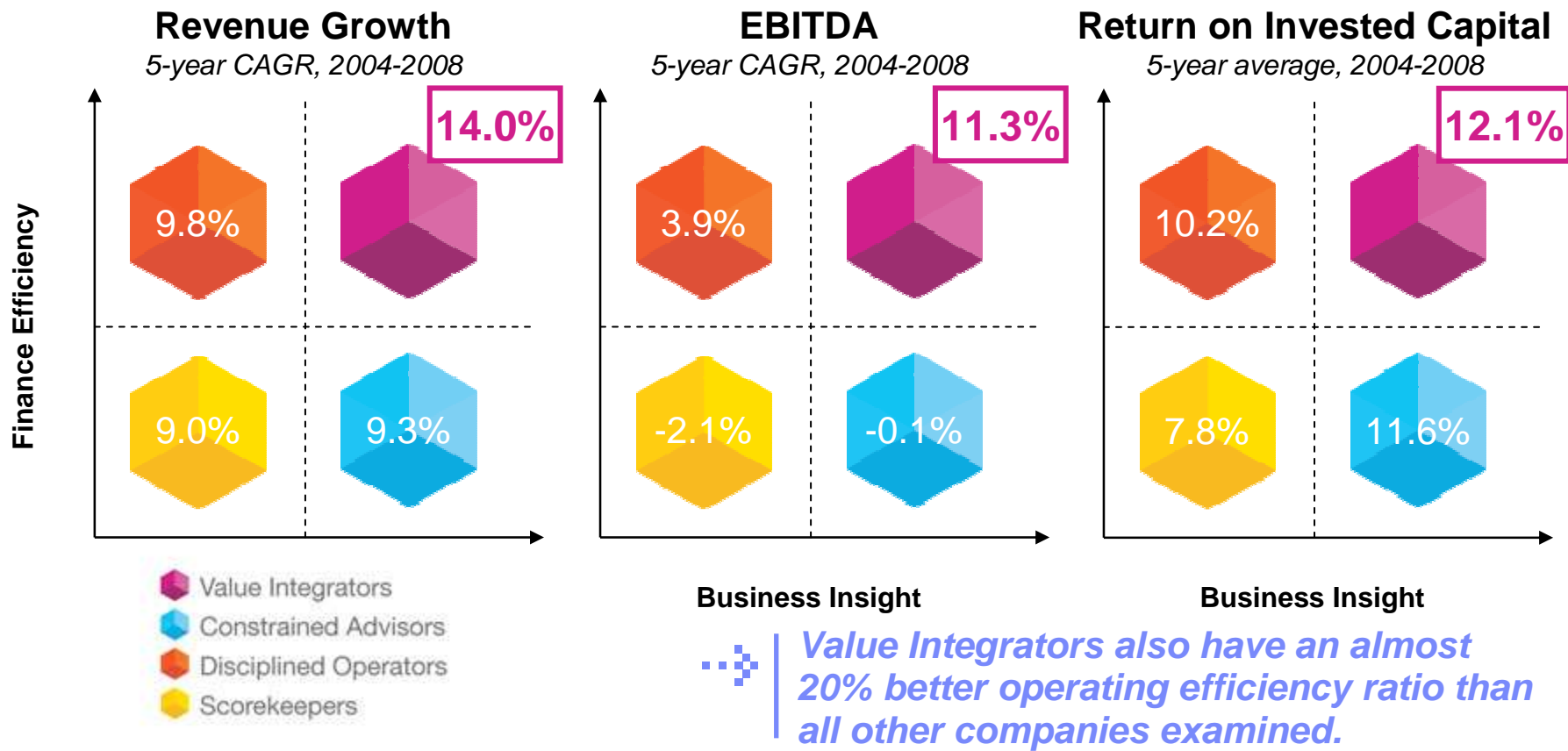


“Our job is to focus the enterprise on making timely, risk-based decisions by providing access to the right business-relevant information and insight-driven analytics.”

*Mark Buthman
CFO, Kimberly Clark Corporation*

Those that excel in both efficiency and business insight contribute to even better financial outperformance

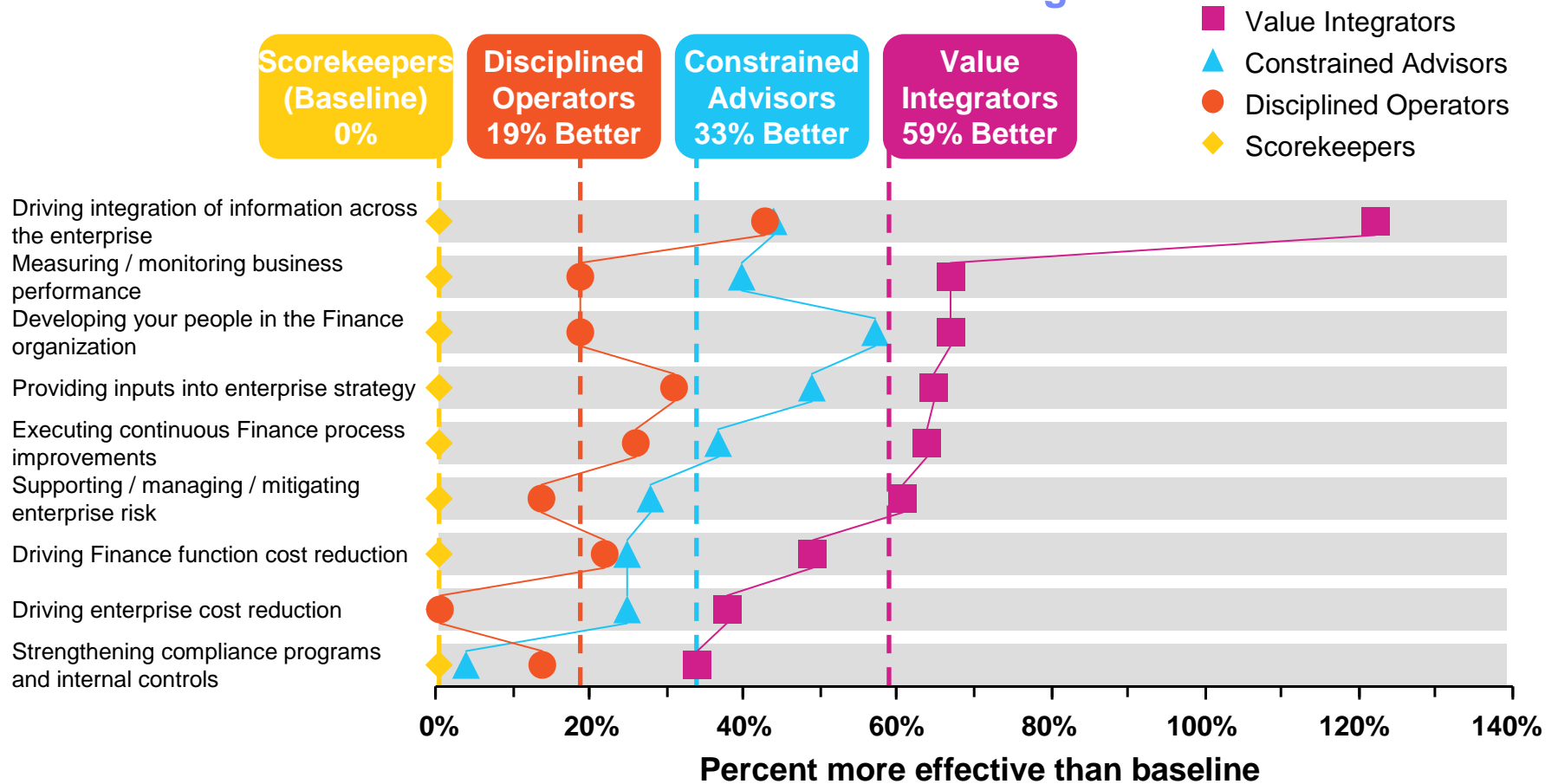
Efficiency + Business Insight Contributes to Outperformance



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

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

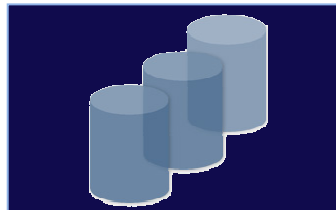


N = 1,454 to 1,469
 Source: IBM Institute for Business Value, The Global CFO Study 2008, 2010

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

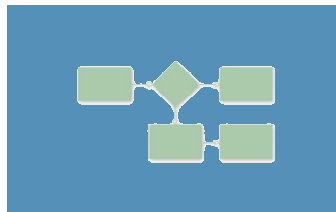
What do Value Integrators do differently?

Data and Analytics



- Improve information delivery
- Drive data integrity
- Use different approaches to help the enterprise make decisions

Process



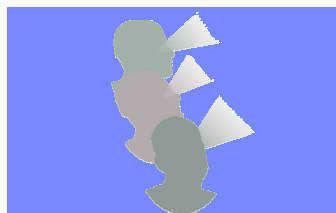
- Focus on next tier process improvements

Technology



- Rationalize and standardize analytical technologies

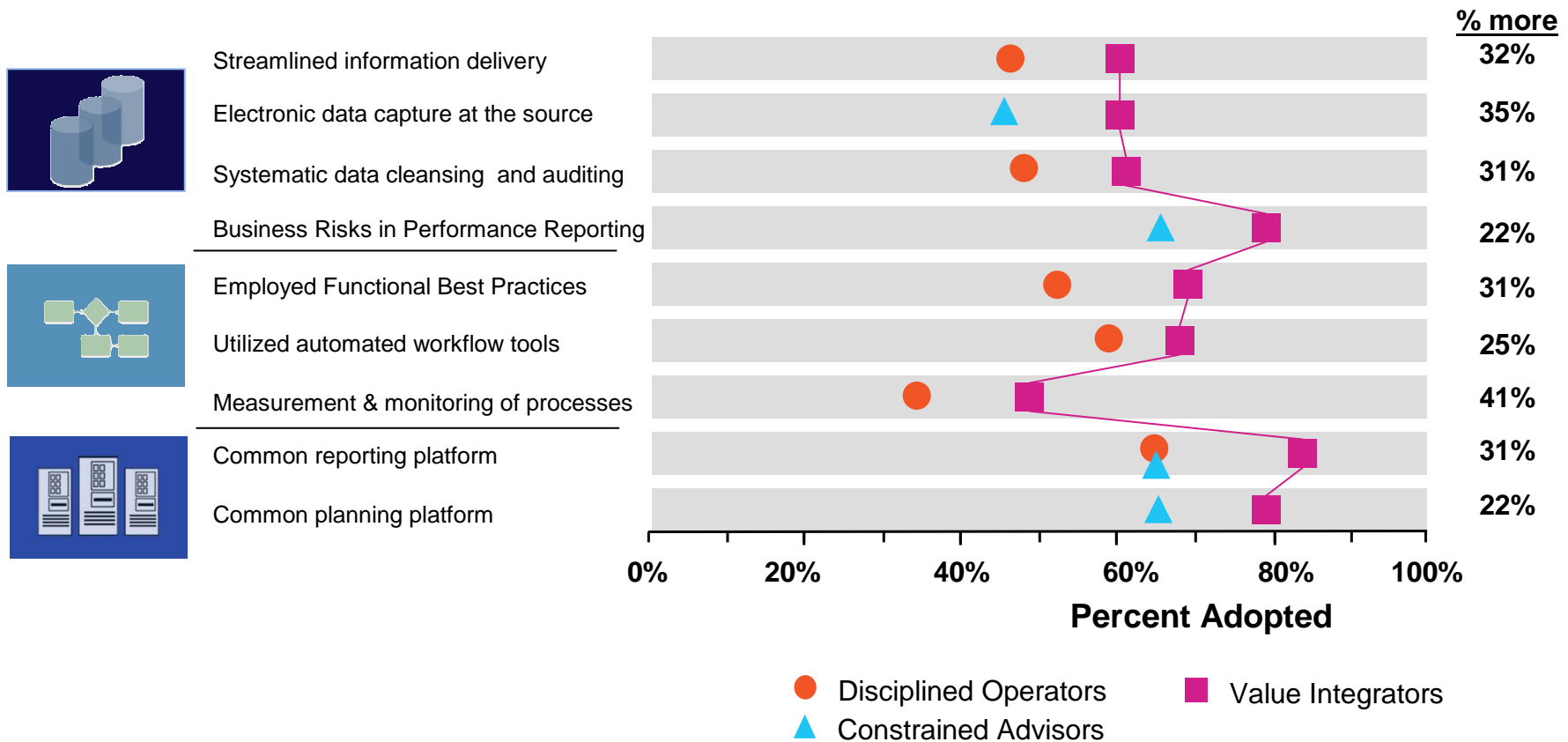
People



- Drive risk management through CFO direct reports of Controls and Risk Management

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

What do Value Integrators do differently?



N = 1,454 to 1,469

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 2008, 2010



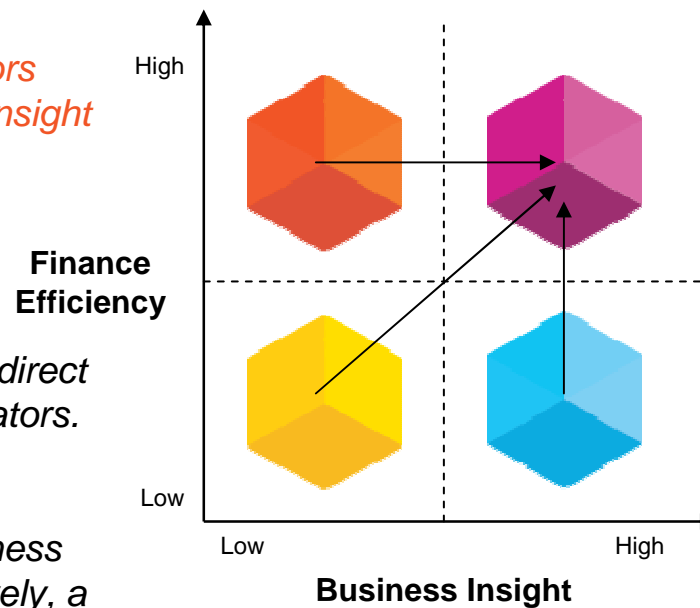
The Path Forward

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

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

The CFO Study reveals that Value Integrators provide strong data points for our Hypothesis

They have implemented common process and data standards across their organizations to increase speed and curtail reconciliation and duplication. With reliable, integrated information as their springboard, they have also developed the talent, technology and analytical capabilities to proactively uncover and communicate business insight.

By executing their core financial activities efficiently and providing the insight their businesses so desperately need, Value Integrators are helping their enterprises make smarter decisions.

Value Integrators		
What Finance model achieves the optimal mix of capabilities needed to outperform?	How can the CFO help the enterprise anticipate and shape its environment?	What can CFOs do to enable timely and informed decision-making ?

Finance Efficiency
How can you increase the effectiveness of finance to satisfy rising expectations?
How do you drive the integration of information across the enterprise?
How do you control costs and improve productivity?

Business Insight
How do you ensure data integrity to produce valid insights?
Do you have the business insight to drive performance improvement beyond finance?
Does your Finance organization have the talent to provide forward-looking insight?

IBM set up BAO service line – business analytics and optimisation – consistent to CFO study findings.

