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Embracing the Promise of a Digital Economy

FINANCE LEADERS WITHIN SMALL TO MIDSIZE BUSINESSES SEE THEMSELVES—
AND THEIR USE OF TECHNOLOGY—AT THE CENTER OF THEIR COMPANIES' SUCCESS

○ EMBRACING THE PROMISE OF A DIGITAL ECONOMY

○ THE SMB BUSINESS ENVIRONMENT

○ FINANCE'S EXPANDING MANDATE REQUIRES CLOSER AND MORE EFFECTIVE COLLABORATION

○ FINANCE PROFESSIONALS EXPECT THAT THEY WILL ADAPT THEIR SKILL SETS IN STEP WITH CHANGES IN THE BUSINESS ENVIRONMENT

○ TECHNOLOGY ENABLES FINANCE TO MEET AN EXPANDED MANDATE

○ FINANCE'S PATH FORWARD WITHIN THE SMB

○ SPONSOR'S PERSPECTIVE

► Embracing the Promise of a Digital Economy

Finance functions at small and midsize businesses (SMBs) are evolving to stay in step with their companies' changing needs. And those leading the finance function are convinced that their future success may well depend on their ability to make the best use of sophisticated information technology to help them keep pace.

These were the primary themes to emerge from a recent global study conducted by CFO Research and sponsored by SAP. As part of a global survey of companies of all sizes, CFO Research surveyed more than 1000 finance professionals in small and midsize organizations around the world in order to gain a better understanding of the outlook for the finance function, and what finance professionals saw as the potential sources of their future success. For the purpose of this survey, SMBs were defined as having annual revenues between US\$10 million and US\$1 billion.

► The SMB Business Environment

Many companies that fall into the SMB category are big on growth. Our survey offers key insights into the ways that finance leaders at these types of companies believe they should transform their roles and those of their teams to match the vision they have for their companies:

SMB Vision	Implications for Finance
Ambitious: Management at SMBs often have more ambitious growth plans than their counterparts at larger firms, which may be more established but also more entrenched in their ways.	Finance leaders often find themselves providing counsel to, and oversight of, many different functions outside of finance. These leaders and their teams must foster the ability to quickly understand all the moving parts of a growing business and work seamlessly with others throughout the company.
Agile: These companies typically consider themselves to be more nimble and agile than larger firms in identifying and pursuing business opportunities. They also typically consider themselves to be closer to their customers than large firms can be.	With their influence and insight extending into new parts of their businesses, finance teams will be expected to act as quickly and decisively as their counterparts in the other parts of their companies. More and more, this means they will be relied upon to develop analyses that help map out the future twists and turns of the business, rather than just report on past results.
Savvy: Management and employees often consider themselves to be more in-tune with the "digital economy" – in many cases evolving technology has played an enabling role in their growth and success.	Finance leaders know their teams will have to rely even more on technology to keep their companies from being overwhelmed by the volumes of data being generated in a digital world. With sophisticated technology, large volumes of data can instead be used to strategic advantage, guiding companies into the future.

Accompanying this growth vision are the "growing pains" caused by the increasing complexity of processes and systems required to keep pace with expansion. Some companies may not have reached the point where scale efficiencies allow them to realize the full value of their efforts. And fast-growing companies may be facing new challenges associated with fostering collaboration and coordination within a rapidly changing organization—that is, bringing all the many moving parts together seamlessly.

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In the context of the SMB business environment, the survey found that those responsible for the finance function recognize that they must transform both their own roles and those of their finance teams at the same time that they seek to transform their companies. Three key findings from the survey illustrate the journey.

1. Finance's expanding mandate requires closer and more effective collaboration

Reflecting the reality for many growing companies, our survey sought insights from the many different kinds of leaders who may be responsible for directing finance teams, as well as from the professionals who made up those teams. In some companies, finance leadership can come from a business head who doesn't draw a hard line between the traditional concerns of a CEO and those of a CFO. In other companies, a separate head of finance likely already is wearing multiple hats out of necessity, especially in companies lacking the scale to justify staffing up in multiple functions.

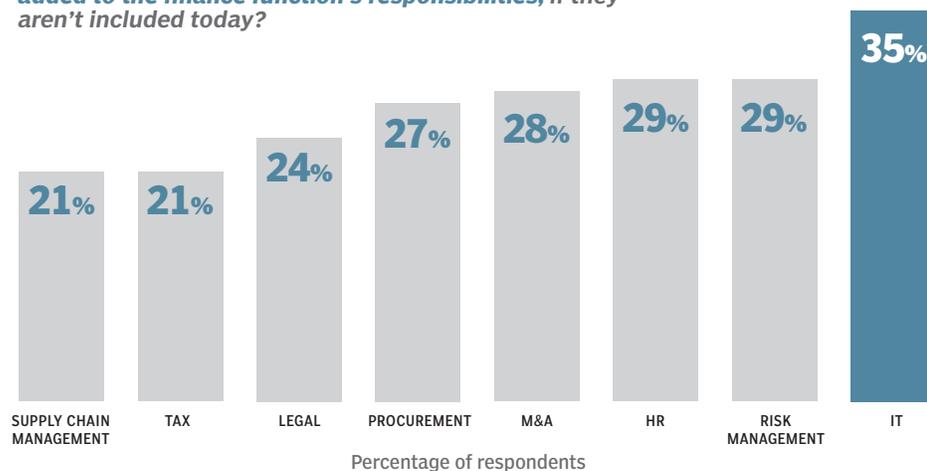
But our survey showed that, regardless of the title they held, those who lead finance teams expect to extend their reach beyond the walls of finance and throughout the many different parts of their businesses. And the finance professionals on their teams have much the same expectation.

The finance function's influence within many SMBs has grown beyond traditional finance and accounting activities to include areas such as IT, HR, legal, and supply chain management. The survey asked finance professionals to name the activities they think are most likely to be added to their finance function's responsibilities in the near future. The answers show that respondents believe that finance's influence will continue to expand beyond historical boundaries over the next five years, spanning the areas shown in Figure 1.

It's interesting to note that the largest number of respondents (35%) predict that the information technology (IT) function will come under finance's purview—if it isn't there already. This strong IT connection is important because the finance professional of the future must be prepared to take full advantage of the advanced technology capabilities that become available. Not only will they need technology to deliver increasingly sophisticated analysis, they will also need it to help them leverage limited resources within a rapidly growing company.

FIGURE 1 In the near future, executives from SMBs believe that finance's influence within their organizations will continue to grow—particularly in IT.

Looking forward five years from now, which of the following activities do you think are most likely to be added to the finance function's responsibilities, if they aren't included today?



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In fact, only through the use of advanced technology can finance collaborate quickly and more effectively with a growing number of constituencies. Finance professionals are increasingly expected to be closely involved with sales, marketing, and corporate strategy, as well as other activities that span the business geographically and functionally. The finance function is being called upon to serve as the central touchpoint for corporate performance management across the enterprise, which means that close and effective collaboration is critical to finance's success.

2. Finance professionals expect that they will adapt their skill sets in step with changes in the business environment

It doesn't matter if you like change. It's happening, and in the digital economy it's happening faster than ever before. In response, finance professionals are being called upon to act quickly and decisively to keep up with an increasingly fast-paced decision-making environment.

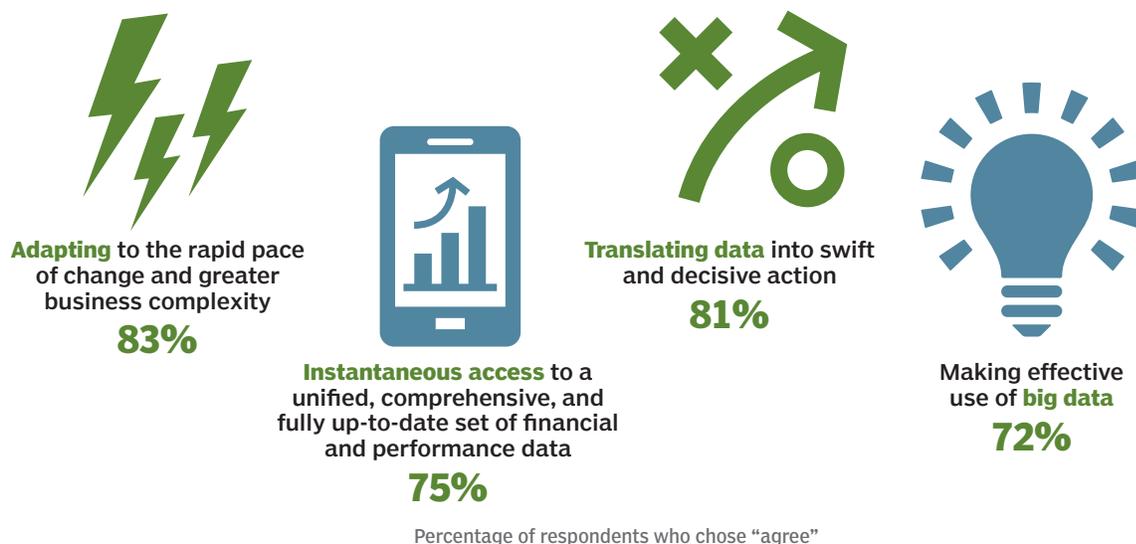
Survey respondents made it clear that the skill sets required by finance team members must evolve to keep pace with rapid change and business complexity. More than eight in ten (83%) say their companies' future success will depend on their ability to adapt to the pace of change and business complexity. Nearly as many say that will mean being able to translate data into swift and decisive action. (See Figure 2.)

The direction of that change was also made clear by the survey. More than eight in ten (86%) respondents say their finance function will need to contribute more to business planning and analysis, strategy setting and execution, and financial performance management. To maintain (or grow) its influence, the finance function will be called upon to contribute more high-value activities—finance must evolve from “data caretakers” to forward-looking “information analysts.”

In fact, the smaller you are, the further you may have to evolve. Respondents from the smallest companies in the survey (less than \$100 million in revenue) see the largest

FIGURE 2 The future success of SMBs will increasingly depend on making better use of technology to manage the growing volume of data.

“Over the next five years, my company's success will increasingly depend on...”



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gaps between their current skills and the skills they must master in the future—whether that involves becoming more self-reliant in technology use, more collaborative, more forward-looking, or more analytical and less transactional.

It is clear from the survey that a large part of finance's transformation will be based on developing the function's ability to analyze the numbers and not just report them. Three-quarters (75%) of survey respondents say that success will depend on instantaneous access to a unified, comprehensive, and up-to-date set of financial and performance data. In addition, more than seven in ten (72%) say success will require the ability to cope with large, unstructured data sets. (See Figure 2.)

To keep up with this re-direction toward more analysis and more collaboration, finance teams will need to employ new tools, and develop new skills, to close the gap.

3. Technology enables finance to meet an expanded mandate

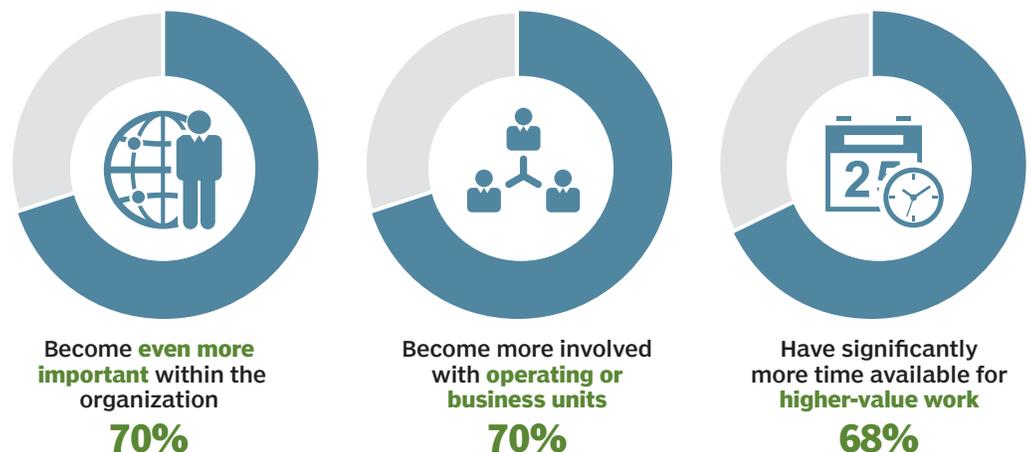
Finance leaders see technology at the heart of the function's ability to both handle an expanded mandate and deliver greater value by using an expanded skill set. New technology allows finance to execute traditional processes more efficiently. And it also allows finance to work with colleagues in other parts of the organization to deliver the kinds of sophisticated, in-depth financial and performance analytics that can drive the business forward.

Consider the data challenge that SMBs face. Although a majority of survey respondents believe that their companies' success will depend increasingly on the ability to translate data into swift and decision action, two-thirds (66%) also say that, over the next five years, they expect this to become increasingly difficult for them.

Automation is central to respondents' vision for their finance teams' futures. They see it as the main pathway for moving to the next level of business analysis and partnership. Using automation for managing growing complexity in accounting, compliance, reporting, and transaction processing is the essential foundation for freeing up time to deliver higher-value activities; to work more closely with operating or business units; and ultimately to become even more important within their organizations. (See Figure 3.)

FIGURE 3 Highly automated financial processes will likely influence changes in the finance function.

"If financial processes were highly automated, my company's finance function would..."



Percentage of respondents who said each outcome would be "likely"

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Finance leaders also understand that they must be focused on adapting to the rapidly evolving business environment. Only four in ten (41%) respondents say they are currently equipped with the information systems they need to produce meaningful business analysis that keeps pace with the speed of change. And nearly eight in ten (78%) say they must develop or acquire capabilities in advanced analytics.

To take their businesses to the next level, those leading the finance function also are likely to be confronting the need to oversee the transition from the hodge-podge of independent systems, processes, and manual interventions that characterize a company just starting out. In fact, the smallest companies in the survey reported the largest number of disparate systems being employed and the heaviest reliance on manual processes for data analytics. The smallest companies also were less likely to use advanced analytics for business analysis/decision support or risk management, placing them at a greater disadvantage versus their large competitors.

► Finance's Path Forward within the SMB

The CFO Research survey found that finance functions at small and midsize businesses are indeed evolving to stay in step with their companies' changing needs, often leveraging sophisticated information technology to help effect the change. The survey also confirmed that SMB finance professionals do expect to take on a greater role in value creation for their companies, effectively transitioning the finance function from the traditional role of data caretaker to a more forward-looking, higher-value information analyst.

Whether they are a working member of a finance team, the head of finance, or the head of the company itself, the respondents in our survey express a clear vision for a more collaborative working environment in the future, where increasingly sophisticated financial analysis is tied directly to swift, decisive business actions. With the speed of information accelerating in the business world, the ability of finance professionals to help grow their firms will depend on their effective use of technology.

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Technology for Financial Leaders

CFOs and their teams at small to midsize businesses

are coming to realize that their future success depends on their ability to make the best use of modern information technology to give their companies a competitive edge. Finance needs tools that enable them to do the increasingly sophisticated financial analysis necessary to improve margins, gain greater control over the bottom line, and quickly adapt to new business models.

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