OXFORD ECONOMICS

Effective Spending Management Boosts Performance

In an increasingly competitive global economy, finance teams are working harder than ever before. CFOs today are expected to drive long-term growth and performance, and most are involved in strategic decision-making outside finance. In many industries, too, finance must help determine where the organization should invest in new technologies to stay in step with digital transformation.

Yet alongside these strategic responsibilities, optimizing working capital, controlling costs, and forecasting future spending needs are central to the finance function's mandate. Fast-growing, highly profitable companies excel at cost control. Furthermore, they are more likely than slow-growth organizations to make use of technology that helps them track and analyze spending, including travel and entertainment (T&E) expenses.

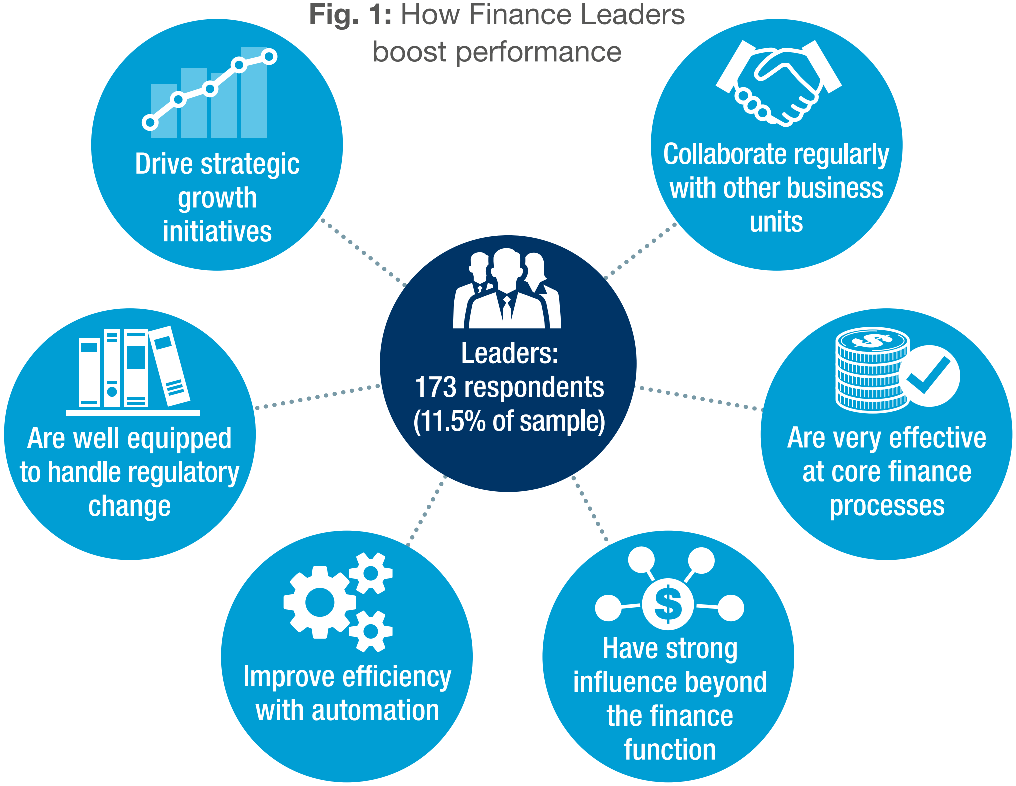
These findings are among the results from a global survey of 1,500 finance executives across a broad range of industries, conducted by Oxford Economics and SAP in March and April 2017. To explore what the top-performing companies do differently from the rest of the pack, we identified six traits that make a Finance Leader, including a high degree of effectiveness in core finance processes. Only a select 11.5% of our survey respondents qualified as Leaders. Yet our survey results show these six practices enhance business performance; efficiency; and governance, risk management, and compliance (GRC) across the organization.

Finance Leaders:

1. Have strong influence beyond the finance function
2. Drive strategic growth initiatives
3. Improve efficiency with automation
4. Are very effective at core finance processes
5. Collaborate regularly with business units across the entire company
6. Work closely with GRC and are well equipped to handle regulatory change

When the finance function is proactive in these six areas, it pays off. Finance Leaders are almost twice as likely as non-Leaders to report market share growth over the past year. **They have a significantly tighter grip on costs.** And they make the most of technology innovations, including tools that automate routine tasks to improve efficiency.

Fig. 1: How Finance Leaders boost performance



Companies with 5.1%–10% revenue growth are twice as likely as slower-growing companies to strongly agree that automation improves finance function efficiency.

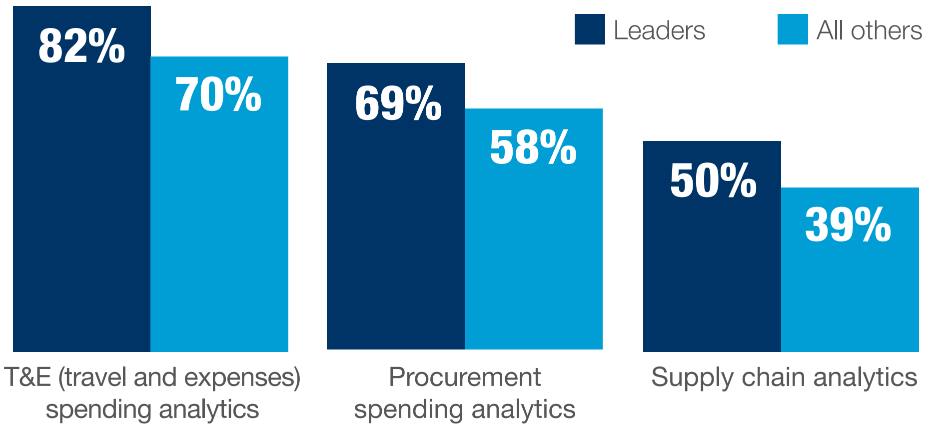
Spending analytics can spur growth

While correlation does not necessarily prove causality, our survey results suggest that strong profitability and revenue growth are tied to effective cost control—a cornerstone of organizational efficiency. For example, companies with profit margin growth of 5.1% to 10% over the past year are more than twice as likely as less profitable companies to rate themselves "very effective" at T&E expense management. They're also significantly more likely to consider themselves "very effective" at working capital optimization.

Finance Leaders understand the link between superior financial performance and cost control. They are more likely than non-Leaders to use analytics to understand their organization's spending trends in T&E, procurement, and supply chain (Fig. 2). Perhaps as a direct result, our survey found that fewer than half (42%) of Finance Leaders name rising costs and wages as a top business risk facing their organization in the next two years, compared with 60% of non-Leaders.

Fig. 2: Finance Leaders see value in analytics

Please rate the usefulness to the finance function of the following data and information sources. *"Useful" and "extremely useful" responses*



Our research found that the most profitable companies are the most likely to use analytics. According to our survey, 82% of companies with profit margin growth above 5% find T&E spending analytics extremely or very useful, compared with 67% of those with lower profit margin growth. Highly profitable companies are also more likely to find supply chain analytics useful.

Fig. 3: Optimizing working capital remains a top priority

What are the finance function's most important business goals? *Top three ranked responses*

The efficiency advantage

While the correlation between superior cost control and corporate performance may shock no one, it's worth remembering that as the CFO's mandate expands, traditional finance activities still play a starring role in corporate performance. Finance executives are well aware of this: Among our survey respondents, optimizing working capital and improving efficiency across the organization are considered two of the top three most important business goals, trailing only optimizing risk management and compliance (Fig. 3).

We made automation-enabled efficiency a criterion of Finance Leadership because, as all CFOs understand, an inefficient business is like a bucket with a hole at the bottom, leaking productivity and profits. Finance executives everywhere try to plug that hole, both in their own function and in other business units. And at many companies, spending management—be it in T&E, procurement, or supply chain—is a prime candidate for streamlining and automating, as reporting and analysis must be repeated period after period. Besides saving money, improving efficiency in these areas can free up time for the finance team to focus on more value-added tasks.

"Automation delivers better service to the customer," said David Craig, CFO of Commonwealth Bank of Australia. "It takes dreary, repetitive work away from staff. And the shareholder benefits because the organization is more efficient."

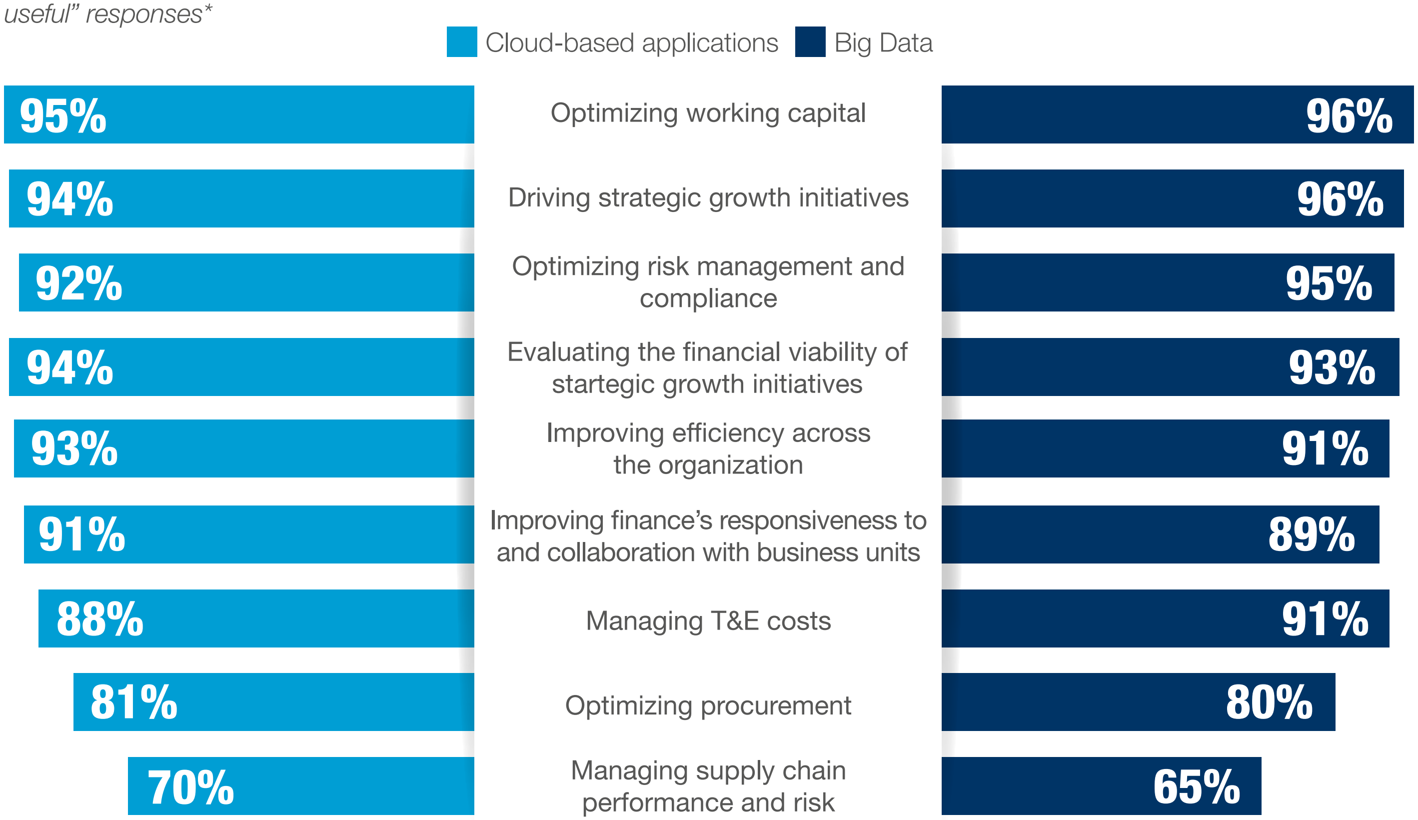
Finance Leaders see the finance function as an internal service within their organization, and they look for tools to help them serve all its different parts. For example, **95% of Leaders consider cloud-based applications critically or very important to the finance function's**

"Automation takes dreary, repetitive work away from staff, and the shareholder benefits because the organization is more efficient."

David Craig, CFO, Commonwealth Bank of Australia

Fig. 4: Cloud apps and Big Data help optimize working capital

Please rate the usefulness of these technologies to the finance function in the following areas. *"Extremely useful" and "very useful" responses**



**Respondents who ranked this technology as "critical" to the finance function's performance today.*

successful performance today, compared with 70% of non-Leaders. They are also much more likely than non-Leaders to say the same of Big Data, mobile technology, and real-time and predictive analytics.

Our survey also demonstrates that cloud and Big Data applications can be especially useful for managing T&E costs (Fig. 4). Among respondents who use cloud-based apps, 88% say they are extremely or very useful for managing T&E costs. And among those who use Big Data analytics, nearly all—91%—say they help manage T&E expenses. CFOs recognize that the right tools can help them manage costs today, and unearth new efficiencies as they analyze ever larger streams of data.

"Automation of reporting can be about efficiency first, but then, more importantly, it's about getting a better quality of information," says Julian Whitehead, CFO of Airbus Defence and Space. Developing higher-quality data, in turn, leads to "a better discussion around the value proposition, how to actually drive value for the business," he notes.

Calls to Action

- Determine how well your finance team analyzes spending at your organization, and consider whether you need to improve expense tracking and reporting.
- Diagnose where your expense management processes could be more efficient. Could automating routine tasks give your team more time for value-added activities?
- Leverage Big Data to convert the massive volumes of expense information the finance function receives into actionable insights.
- Assess whether analytics might help the finance function anticipate and optimize spending.

Read the full study at www.sap.com/CFO.

OXFORD: +44 (0)1865 268900

LONDON: +44 (0)203 910 8000

BELFAST: + 44 (0)2892 635400

DUBAI: +971 56 396 7998

FRANKFURT: +49 69 96 758 658

MILAN: +3902 9406 10

PARIS: +33 (0)1 78 91 50 52

PAARL: +27(0)21 863-6200

NEW YORK: +1 (646) 786 1879

BOSTON: +1 (617) 206 6112

CHICAGO: +1 (773) 867-8140

FLORIDA: +1 (954) 916 5373

LOS ANGELES: +1 (424) 238-4331

MEXICO CITY: +52 155 5419-4173

PHILADELPHIA: +1 (646) 786 1879

SAN FRANCISCO: +1 (415) 214 3939

TORONTO: +1 (905) 361 6573

SINGAPORE: +65 6850 0110

HONG KONG: +852 3103 1097

MELBOURNE: +61 (0)3 8679 7300

SYDNEY: +61 (0)2 8458 4200

TOKYO: +81 3 6870 7175

Email:
mailbox@oxfordeconomics.com

Website:
www.oxfordeconomics.com

SAP® CONCUR® OXFORD ECONOMICS