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Digitalist: SAP Finance and EY talks

Four part series by **Joel Bernstein** and **Tony Klimas**

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CFO 2018: finance and the move to outcome-based business models

Tony Klimas
EY Global Performance Improvement Finance Leader

The question for so many companies in 2018 is as simple as it is daunting: How do I reinvent my business? Answers to this question will vary — but whatever the answer is, the CFO will be right in the middle of it.

I recently participated in an interview with my colleague Joel Bernstein, CFO of SAP Global Customer Operations. In that discussion, Joel talked about the impact on finance of changing business models. One prevalent change is the move toward outcome-based business models, where companies are realizing what customers want most: not so much products, but positive experiences with outcomes that deliver value.

Take SAP, for example, which has been transitioning to a cloud-based delivery model. "There's still demand for perpetual-based licenses and software delivered on-premise in the traditional way," Joel said. "But the real growth is coming from cloud services."

The impact on finance

What does this mean for CFOs like Joel? It means that the finance function needs to transform itself to serve a new business model, where revenues and profits are recognized in entirely different ways.

"It's one thing when you follow a traditional sales cycle, sign a contract, deliver code, and then recognize revenue and profit at that point in time," Joel said. "But when you follow an outcome-based model, things are entirely different."

With such models, finance needs to be integrated into the cloud service-delivery model at a fundamental level — because revenue and profit are often based on consumption. What's needed here is a way of monitoring usage and calculating prices systematically, as well as ways to measure delivery performance across variables, including availability and uptime. All of this has an impact on everything from deal structuring and execution to invoicing and cash collection.

The same across industries

The move to outcome- and service-based models is common elsewhere. Take, for instance, Kaeser Kompressoren, an SAP customer. Until recently, this century-old manufacturer of industrial air compressors made and sold equipment, and made money from service contracts. Today, it provides and maintains the units for free and charges according to how much compressed air customers consume. This is tracked by IoT sensors.

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You can imagine the changes required in the finance role to support this new business model.

Even at EY, where I serve as global performance improvement finance leader, we've started to make a similar transition to what we call asset-based help services. This means that instead of selling our traditional product – hours of consulting time – we're now looking at value-added services generated by an asset. An example might include a subscription-based risk management service or specific assets related to analytics, which would be extensions of traditional consulting work. This creates a whole host of new challenges for finance from a valuation and performance measurement perspective.

The importance of innovation

To be sure, the particular challenge your finance team and company face transitioning to new business models will differ. But a likely connecting thread across all transitions will be a need for finance to emphasize innovation.

As data flows in and out of new outcome-based business models, finance organizations are in a unique position to generate insight – which is what it's all about in a digital economy. This is why it's so important to instill a culture of innovation within finance. People should feel encouraged to go out, analyze the data and innovate new solutions.

Changing the discussion

Joel's team at SAP, for instance, has transformed the finance function to a shared services model. Today, much of SAP gets access to core finance functions, such as order-to-pay, through these shared services.

Leveraging a shared service model has allowed SAP and the finance teams to standardize best practices across end-to-end processes. Joel said this allows new acquisitions to connect much more quickly. The efficiency and scale of this new model, in other words, make growth easier for SAP. That's strategic.

This model has also helped to transform data visibility at SAP. Now, the finance team at SAP can support the business with real-time analytics. People can gain even the insight they need themselves.

How do you know when you've succeeded? Joel answered this way: "The sense of success comes when the discussions begin to change."
Instead of talking about reports that finance has provided, "Now the business and finance teams are talking about new insights that the business has discovered and what we should do to take advantage."

This, of course, only increases the pressure on finance to innovate. But in the grand scheme of things, this is a good problem to have.

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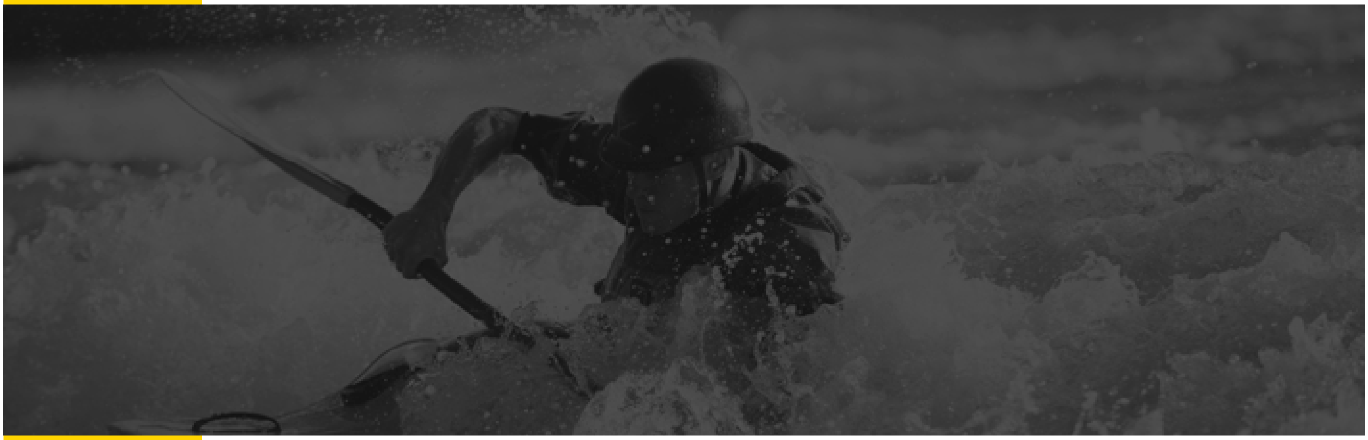

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The day I left finance: the need for CFOs with broad reach

Joel Bernstein
CFO, SAP Global Customer Operations

Some time ago, after coming up in various finance roles at SAP and elsewhere, I left finance and moved into operations. I think it was the right move.

I've since returned to finance. But I was recently reflecting on this move back and forth when participating in a joint interview with Tony Klimas, who is global performance improvement finance leader at EY. Tony was asked about the changing role of the CFO. His response was interesting.

Secretary of state

He said that increasingly, the role of the CFO is like the role of secretary of state or prime minister. The CFO, in other words, is like the top diplomat for a company. The CFO Tony said, "A CFO needs to think strategically, communicate well, and interact with many different constituencies and stakeholders – from the board to customers to investors."

To this, I would add the notion of "internal secretary of state" – where it is equally important for the CFO to establish a broad reach within the company, coordinating with all the groups internally. Of course, the finance function is spread horizontally throughout most organizations, so this internal diplomat role for the CFO makes sense.

Important for digital transformation

Beyond the benefits of cohesion, the ability of the CFO to coordinate effectively with groups inside and outside the company plays a critical role in digital transformation. To the extent that a transformation effort involves a change in business model – such as moving to the cloud and charging as a subscription – finance needs to be deeply involved. A digital transformation that doesn't impact finance is a rarity.

Finance can also drive transformation. I've written in the past about the transformation of our own finance function here at SAP. Today we leverage shared services and Center of Excellence model that allows for the efficient integration of financial processes for newly acquired entities. . This helps speed the rate at which SAP can integrate new acquisitions and realize value. Growth, in other words, is easier and faster. Not bad.

A two-way street

What's important for CFOs is important for other chief execs, as well. I advocate that we all get out of our silos as much as possible and cross-train, as it were.

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The digital economy demands that companies fire on all cylinders. This means knowledge, coordination, and relationships across all organizations – including finance, operations, HR, sales, customer service, supply chain, and more. That includes external partners and stakeholders.

Much of this is already happening. Tony cited one data point from a report by recruiting firm Korn-Ferry that shows that when it comes to hiring a new CFO, less than 10% of the senior executives surveyed viewed controllership skills as important, while over 50% viewed strategy and general management as the most important skill set for aspiring CFOs.

This is a good thing. In my own experience, moving to operations did more than broaden my scope of vision. It also helped me better understand the role of finance – just as you better understand your home country after living in a foreign country for a time.

Regardless of how one comes to the CFO role, it's importance for digital transformation is worth reemphasizing. CFOs are trained to understand almost instinctively that whatever action they take, it will show up on a financial statement. Understanding this through and through can be a tremendous benefit for companies as they transform their way to successful profitability in a digital economy.

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3 Technology, transformation, and the CFO

Joel Bernstein
CFO, SAP Global Customer Operations

Here at SAP, I often talk the three kinds of hats worn by CFOs and the finance function in general. These include:

- **Steward** – where we act as a voice of conscience, ensure compliance, and execute prudent financial strategies with a high degree of professionalism
- **Business partner** – where we provide operational and decision support to the business and best-in-class value-adding business-partnering services enabled by efficient processes
- **Transformation agent** – where we proactively advocate for change throughout SAP and use our own experience as a template for how to succeed

I think this breakdown is common in other companies, as well. But truth be told, seldom are CFOs acting purely in one capacity or another. More often than not, we're doing it all at once. This is particularly evident as companies pursue digital transformation with specific new technology implementations such as the Internet of Things (IoT).

Just for an idea of the kind of transformation that IoT can facilitate lead, take the example of Hilti, a manufacturer of high-end power tools for the construction industries. Hilti has used IoT technology to move from selling power tools like drills to, in a sense, selling the holes that the drills make. Hilti, in other words, has moved to a pay-per-use model: however long it takes you to drill holes, drive nails, or cut wood – that's what you pay for. And it's all monitored automatically via IoT technology.

The role of finance

As companies move toward x-as-a-service models, collecting and recognizing revenue and profit is dramatically different. As with Hilti, you may need to automate pricing according to usage. This will change how finance goes about the process of billing customers.

Facilitating such a move, finance acts as a partner to the business, helping the company to reshape itself for the digital economy. Of course, the move to consumption-based pricing might never happen unless finance is agile enough in the first place to facilitate the change.

At SAP, as I've written before, the finance function has moved to a shared service model that does in fact give SAP the agility to innovate. In this sense, it can be said that we act as an agent of transformation.

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The point is that sometimes it's difficult to know exactly where the impetus for innovation initiates. In my experience, it's often synergistic – with multiple roles and organizations coming together in ways that are difficult to tease apart.

The voice of reason

Having said all this, let me note that one traditional role for finance that can sometimes get deemphasized in the rush toward innovation is that of the stewardship. I recently participated in a joint interview with Tony Klimas, global performance improvement finance leader at EY. "One of the core roles of finance is the control function," Tony reminds us. "The goal is to set up and maintain controls to detect and prevent fraud and other financial issues."

The challenge in a digital economy characterized by constant innovation is to constantly examine how change might impact these controls. "Whether it's the proliferation of devices to support a mobile workforce or the emergence of vast networks of IoT-enabled devices to enhance the customer experience," Tony said, "finance is often the voice of reason pointing out control risks."

As we're all moving fast into the future, this role of stewardship should not be underestimated. Of course, the challenge for finance is to play this role in a way that doesn't stifle innovation. "This can be a tough road to travel," Tony said. "But it's something every finance organization has to deal with. Because in a digital economy, innovation is a way of life."

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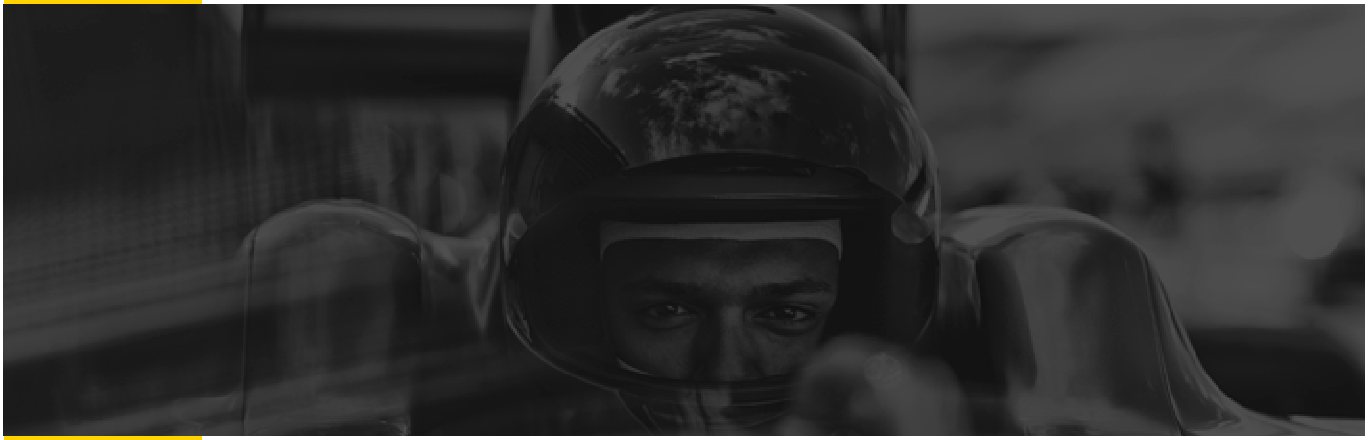

4 Automation, simulation, and talent management for finance

Tony Klimas
EY Global Performance Improvement Finance Leader

When I graduated from business school, my first job was managing accounts payable at a US-based shared services center for a large manufacturing company. This was an entry-level, management-track position – and it was a great experience. Not only did I learn the ropes at the most basic level, but I also made some good contacts and started thinking about where I wanted to go next. These positions are necessary for developing talent in finance and this first job for me set me up for success later on in my career.

The reality today is that many of these entry-level jobs in finance and other business functions are being automated. In financial services, such automation is not only a story about robotics but also "machine learning" – and machine learning isn't so much about machines as it is about pattern recognition and business process optimization.

Machine learning, a subset of artificial intelligence, is the process of using sophisticated algorithms to train systems to "learn" from massive volumes of data – rather than performing rote tasks programmatically. In finance, machine learning can be used across a wide range of areas. These include optimizing credit assessments, detecting and preventing fraud, improving compliance – the list goes on. The question is: what does this mean for traditional career paths in finance?

The uses of simulation

I believe one potential development is the new finance employees just out of school spending some of their first year working with business simulation tools to replace real-world experience that is no longer possible. New hires are often not fully prepared to take on more advanced positions in finance without first spending some time in the "trenches" – so one option might be simulation tools that teach them the business before they move into more hands-on roles?

Fortunately, young professionals in finance can learn a lot from simulation tools because they're increasingly sophisticated and based on detailed competency models and career paths. At EY, we've worked hard to develop specific technology to help our clients meet their training and staffing goals by understanding the various competency models required and the potential skill gaps that might exist in the current state of the organization.

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This helps our clients address immediate issues related to talent, but also allows them a more strategic view to prepare more effectively for what's coming.

Getting out more

What's coming, of course, is the need for greater agility to help keep pace with the demand for innovation. To help finance organizations prepare for this, simulation technology, competency models and skills assessment can be helpful for people at every stage of their careers – and this doesn't necessarily mean sitting behind the desk.

This point, certainly, is not lost on my colleague Joel Bernstein, CFO of Global Customer Operations at SAP. I recently spoke with Joel about his own internal efforts with digital transformation within the finance team at SAP.

"In many ways," Joel said, "what we're trying to do is drive a mind-shift where instead of doing a job or managing a process, our people are asking first and foremost: 'What can I do to help the business succeed?' This requires getting out, talking to people, figuring out what's needed, creating data, running analyses, and impacting change."

To help his team get there, Joel's transformation efforts have included "simulation events" of sorts. These are workshops where people from across the global finance team gather to run simulations in a group context that highlight issues and help zero in on solutions. At the end of the training, teams actually present their solutions to business leaders.

The advantages of this program run at multiple levels. For SAP as a business, it helps to facilitate innovation. For employees, it exposes them to non-finance business colleagues, and helps them to better understand how to serve and interact with the business. And for the finance team at SAP, it helps create a pipeline of valuable talent, while generating for the team a reputation as an agent of transformation.

So, for CFOs and other finance professionals who might be reading this: Think about the changes impacting your workforce and how you will be creative in making sure your people have what they need to help your businesses succeed in a digital economy that requires all of us to be at the top of our game.

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