PRIVATE EQUITY SERVICES

DRIVING TRANSFORMATION THROUGH THE OFFICE OF THE CFO

Part I: The Pillars of Transformation

The role of today's CFO is very different than it was 20, 10 or even five years ago. In the past, CFOs were mainly expected to provide accurate reporting, reliable forecasting and monitor cash. Today, CFOs are viewed as comprehensive business advisors expected to drive improved performance more than ever before. With technology solutions satisfying many of the tasks formerly driven by the office of the CFO, boards and management teams are now expecting CFOs to expand their impact on the business. In light of this shift, the CFO must be a true strategic advisor to the CEO.

In Part I of the six-part series, "Driving Transformation Through the Office of the CFO," A&M Private Equity Services, CFO Services Leader & Managing Director, Richard Jenkins, provides an overview of the three primary building blocks of a high performing CFO office that constitute the pillars that are critical to a successful business transformation.

In order to have the tools and insights to be able to drive this type of value, the three fundamental building blocks of the finance/accounting team needs to be well established and high functioning.

I. Liquidity & Working Capital Optimization – instilling a cash culture drives economic value.

II. Strategic Analytics & Planning – successful business strategies are backed by hard analytics and actionable plans.

III. Performance Measurement & Management – employees manage what is measured.

When these three building blocks are functioning, these tools can be used to identify key activities that will enable business improvement, drive accountability, measure the effectiveness of business initiatives, allow for strategic adjustments and ultimately drive foundational improvement in the business. However, without these fundamentals, it is difficult to identify, monitor and achieve results from targeted improvement initiatives.

In addition, it is important for the finance team to be actively involved in leading the direction for the overall organization, and not just myopically focused on the numeric output of the accounting/finance function. As such, the CFO needs a strong voice in forging the direction and implementing the key decisions impacting the future of a business. Imbalance in the healthy business tension that should exist between finance, operations and sales/marketing could lead to poor decisions and ultimately operational/financial missteps.

As CFOs work to improve the three fundamental building blocks of the finance/accounting function, the following essential elements should be considered.

I. LIQUIDITY & WORKING CAPITAL MANAGEMENT

- Establishing a process to forecast cash accurately, efficiently and frequently – accuracy wins, overly conservative cash forecasts can lead to poor decisions that are not beneficial for an organization.
- Tracking and managing cash should be top of mind for all functions within a business – it will not be effective for only one person to be responsible to manage the cash.
- Working capital benchmarks are marginally helpful when evaluating working capital requirements – truly effective programs to optimize working capital, evaluate a company's needs and understand how to operationally improve billing, collections, purchasing, disbursements and inventory levels.

II. STRATEGIC ANALYTICS & PLANNING

- Developing an annual business plan and budget is the job of the entire organization and not just the finance/accounting team (as with cash management) – a realistic calendar should be published to ensure that input and ownership are garnered across the entire business in an efficient manner.
- Creating annual improvement initiatives is critical to moving the business forward in today's era of sustained sequential improvement – these initiatives should be precise, actionable and assigned to specific business owners.
- Budgets/forecasts should be prepared using the root drivers of business performance that can be evaluated and tested – the budget/forecasting tools should allow the management team to model the expected outcomes of different strategic scenarios to determine the optimal strategic direction of an organization.

III. PERFORMANCE MEASUREMENT & MANAGEMENT

- Performance measurement starts by understanding the primary drivers that determine the success of a business. Ideally, these are the ones that should have been used to develop the budgets and forecasts as noted above. In order to gain ongoing, active visibility into these drivers, it is imperative that data captured by the information systems into the master data files is complete and accurate. Inaccurate or incomplete data will prevent management from tracking performance at a level of detail that provides meaningful insight.
- Providing effective management reporting entails use of detailed understanding of the key drivers to provide insight into the performance of a business and create the action steps needed to reverse negative trends or capitalize on positive ones. The more insightful the reporting, the more readily apparent the action steps.
- Ensuring that the information being made available to managers is useful and utilized. Too many organizations produce volumes of unused reports that waste time and money. Ultimately, less is more.

Once the building blocks are established to provide visibility into the historical and future performance of the business, the focus on driving better operating performance should increase. As this shift towards transformational leadership occurs, there will be some potential challenges with 1) Organizational Integration, 2) Talent Management, and 3) Business Insight that will need to be addressed.

1. ORGANIZATIONAL INTEGRATION

- The accounting/finance team should not be sequestered to the back of the building performing its work in isolation from the business.
- Key leaders in the business need to ensure that the accounting/finance team understands the business and strategic objectives. For example, it is difficult for the Controller to establish protocols for capturing cost information without the knowledge of the business drivers that come from understanding the business plan and strategy.

- Forecasting/reporting updates should be done in conjunction with functional owners, not separate from them. It is helpful to pair finance/accounting team members with key leaders throughout the broad organization and ensure that the functional managers own the outcome of their forecasts.
- Understand the analytical needs of the business and work to meet those needs. Too often CFOs provide a data dump and expect the users to digest, analyze and conclude. This practice is very prevalent in monthly operating reports that are sent to Private Equity boards of directors.

2. TALENT MANAGEMENT

- Be patient in recruiting as there is no substitute for hiring high quality and motivated employees. This need is magnified by the push to drive greater efficiency and lower costs within the finance/accounting function. Since the workloads are increasing, talent needs to follow suit.
- Take time to provide coaching and equip the team with technical and managerial skills to be successful. It is helpful to cross train the team so that accounting professionals understand the objectives of the FP&A professionals and vice versa.
- Do not become over-reliant on the superstars. It creates a choke point for meaningful business analytics and presents a risk to the functioning of the team should that person leave.
- Know when to say when. There can be a hesitancy to remove underperformers in finance/accounting due to their institutional knowledge but at some point it becomes evident that it is time to upgrade the talent in a role.
- Ensure that the organization structure for the finance/accounting team aligns with current objectives, capabilities and IT software/systems – use outsourcing where practicable.

3. BUSINESS INSIGHT

- The CFO:
  - Has the greatest visibility into the performance of key drivers impacting an organization. This insight is valuable in determining where to mine the organization for value.
  - Should not wait for others in the organization to actively evaluate opportunities to improve the business and make strategic moves.
  - Is in a unique position to proactively identify areas for evaluation and improvement. Examples for active pursuit can include: make versus buy, product or customer rationalization, and bolt-on acquisitions.
- Transparency is critical. It is important to discuss with key leaders/owners to get in front of the issues and avoid surprises.
- Stay current – with the rapid advancement of analytical tools, it is more difficult than ever to stay current. While it is important not to chase fads, large corporates are making better use of digital tools than mid-market companies, it is time for them to catch up.
- Control the data used by the company. Today's companies typically do not lack information but may lack measures to ensure that the data is complete, accurate and sufficient.

Armed with the three functioning pillars related to Liquidity & Working Capital Management, Strategic Analytics & Planning, and Performance Measurement & Management, coupled with a mindset towards driving foundational change, the CFO will be equipped to sit alongside the CEO as a trusted strategic advisor. In this role, the CFO will be called upon to aid the CEO in identifying opportunities of positive change, making sound decisions and ultimately increasing the value of the organization.

In Part II of the series, Private Equity Services Managing Director, Charles Lowrey, will further delve into driving a successful Liquidity and Working Capital Optimization process.

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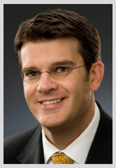

Richard Jenkins is a Managing Director who leads the CFO Services Group for the Private Equity Services group at Alvarez & Marsal. He specializes in driving transformational change through identifying key business drivers, completing strategic analyses of business performance and developing/implementing fulsome improvement programs. Mr. Jenkins has served as CFO, COO and CEO across several industries for companies ranging in size from $150 million to $2 billion.

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