



The New Value *Integrator*

*Insights from the
Global Chief Financial
Officer Study*

Executive Summary

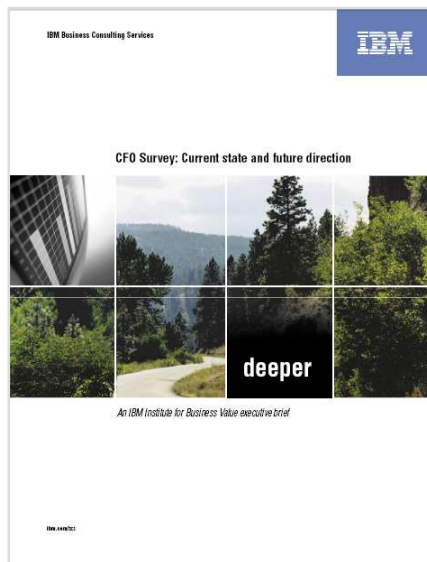
IBM Finance Forum

May 24, 2011

Ferenc Pongrácz,
COO IBM Hungary

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

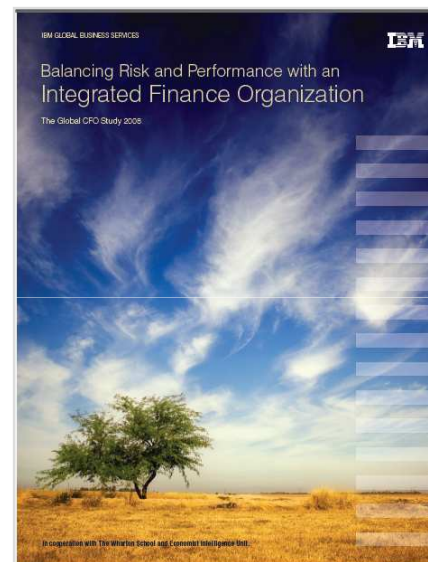
CFO Studies



2003



2005



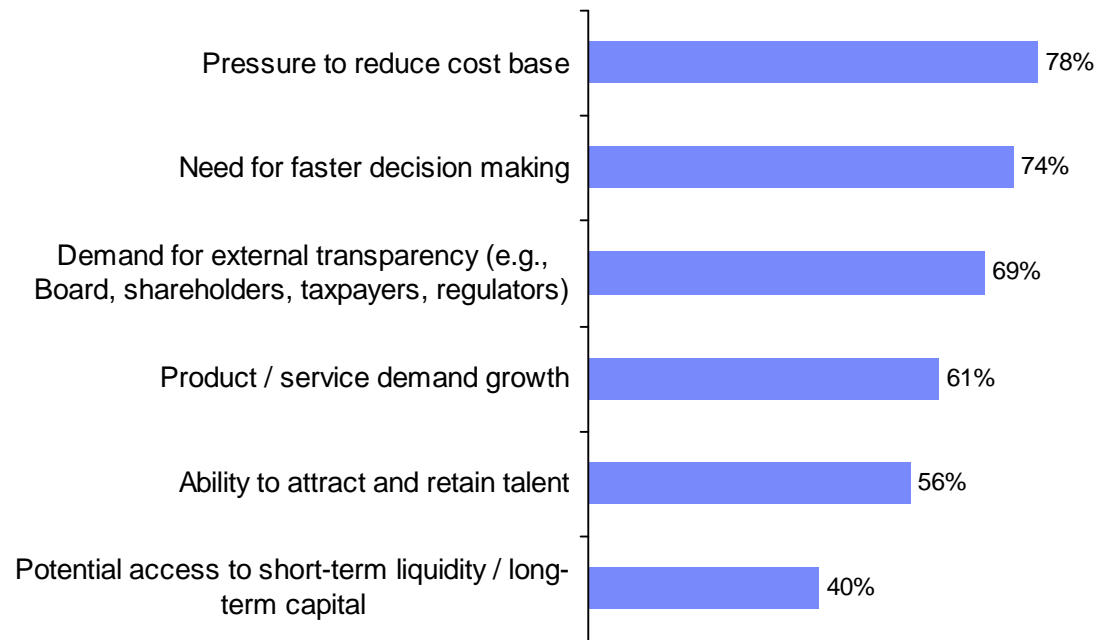
2008




2010

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.***

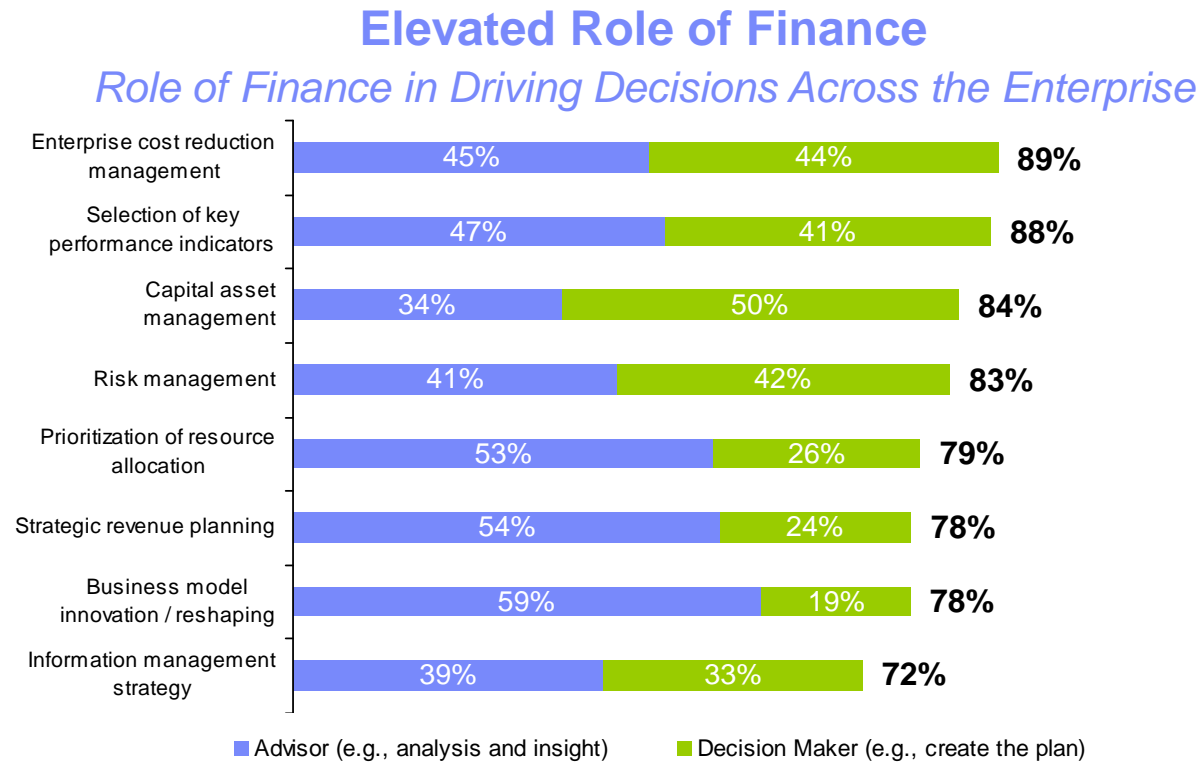
N = 1,844 to 1,905

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)

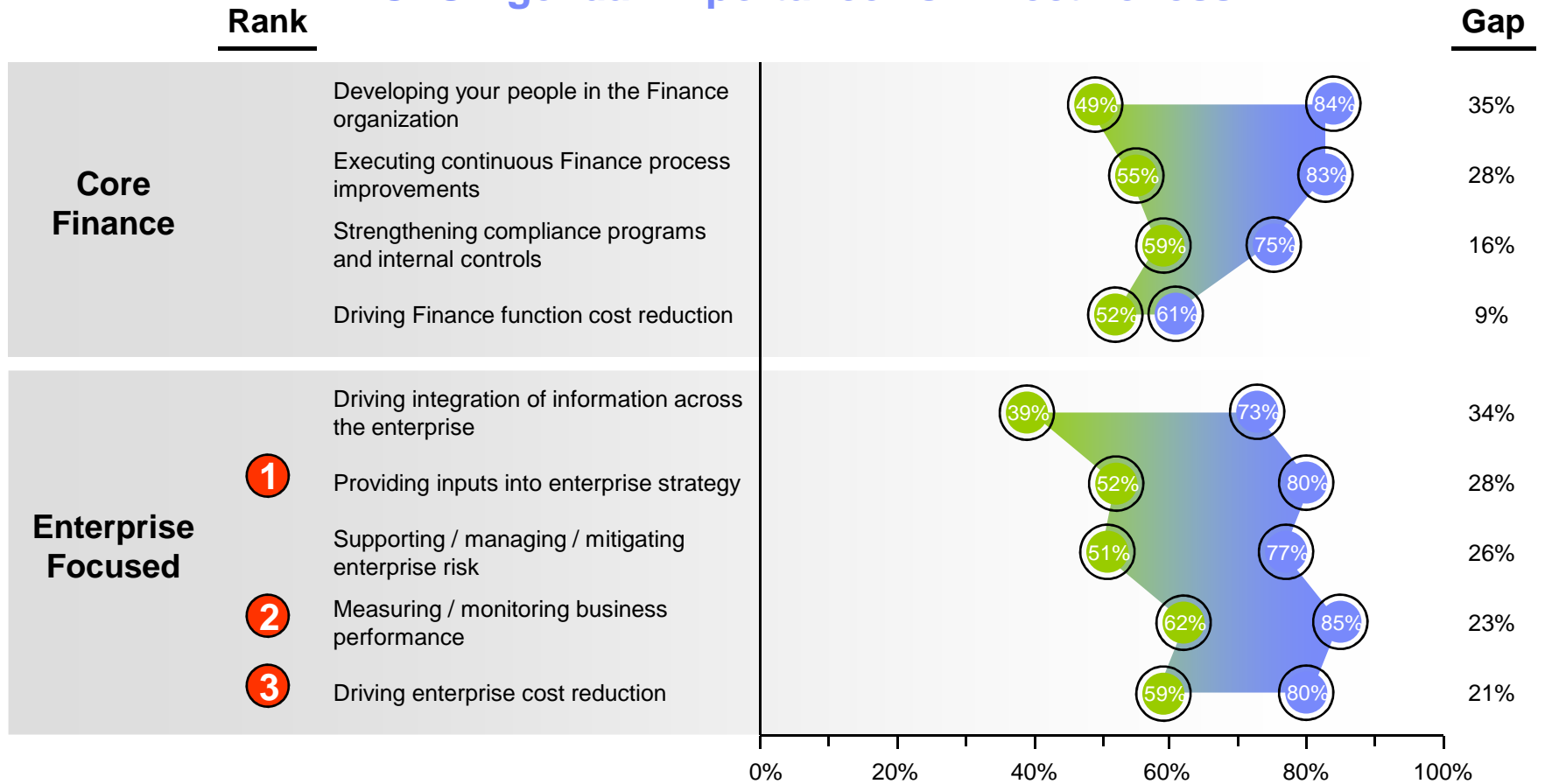
Note: Respondent choices included No Role, Informer, Advisor and Decision Maker

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

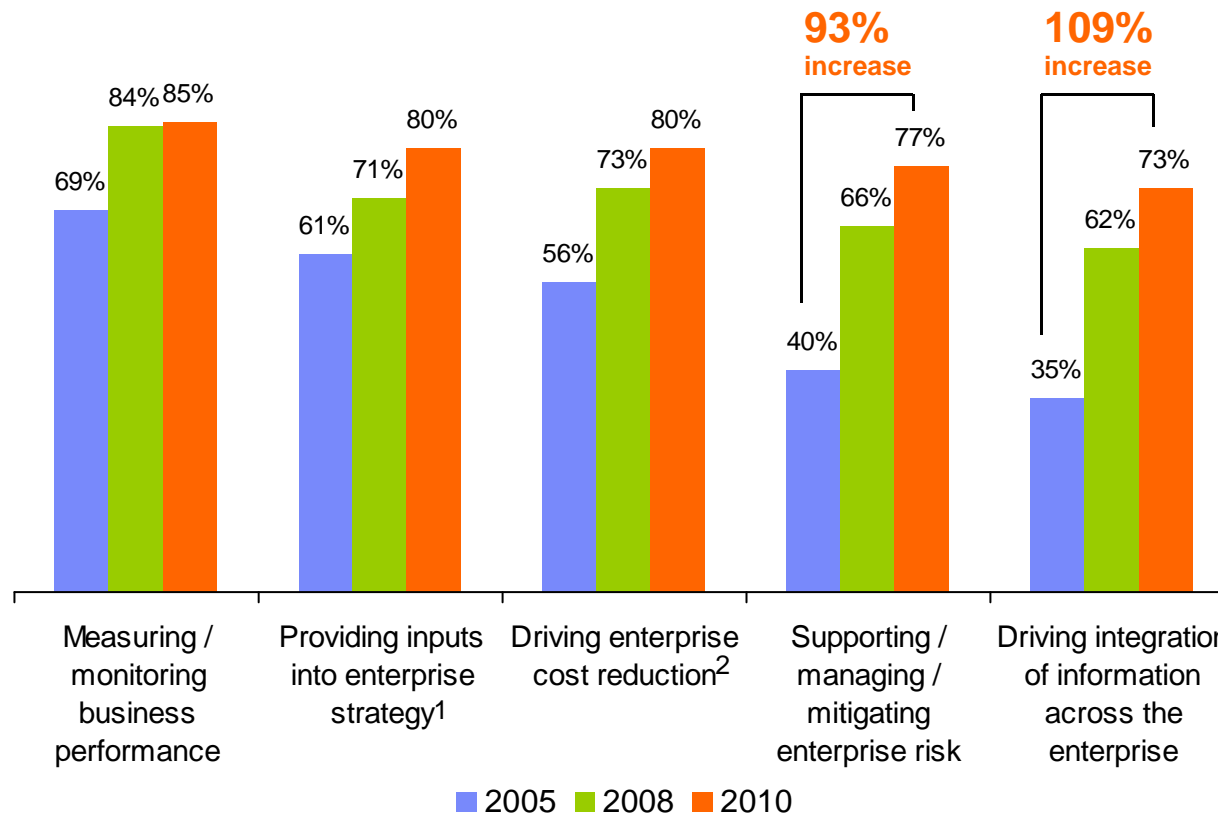
● Importance
● Effectiveness



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

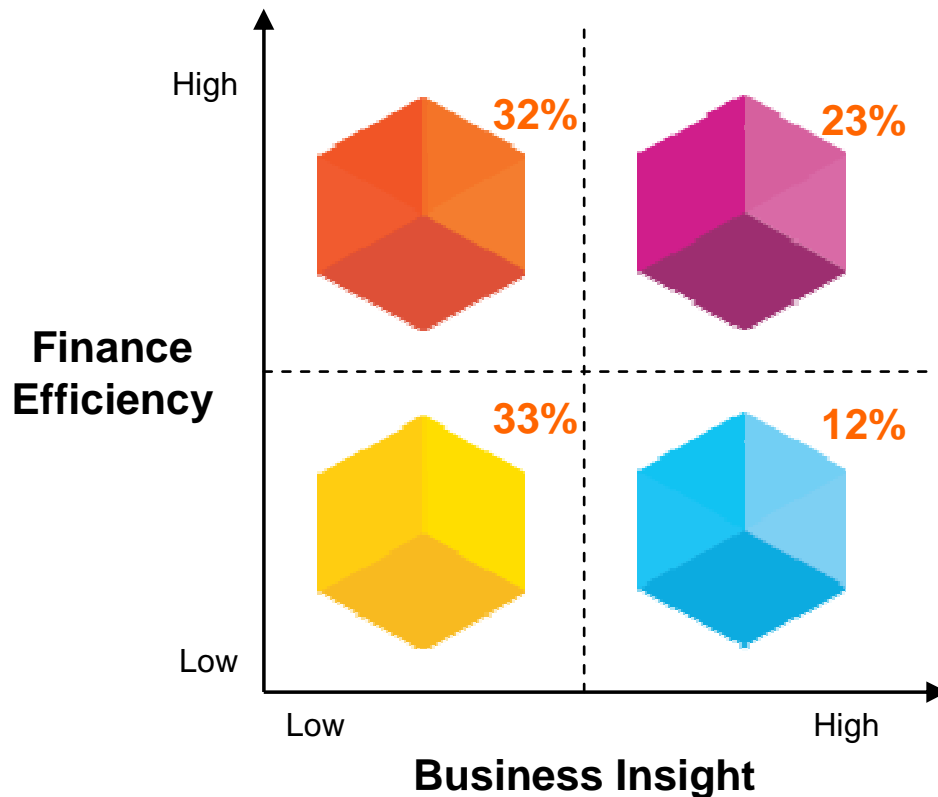
¹ 2005 defined as "Partnering with your organization to identify and execute growth strategies" and 2008 defined as "Inputs into identifying and executing growth strategies"

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

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

Finance Profiles

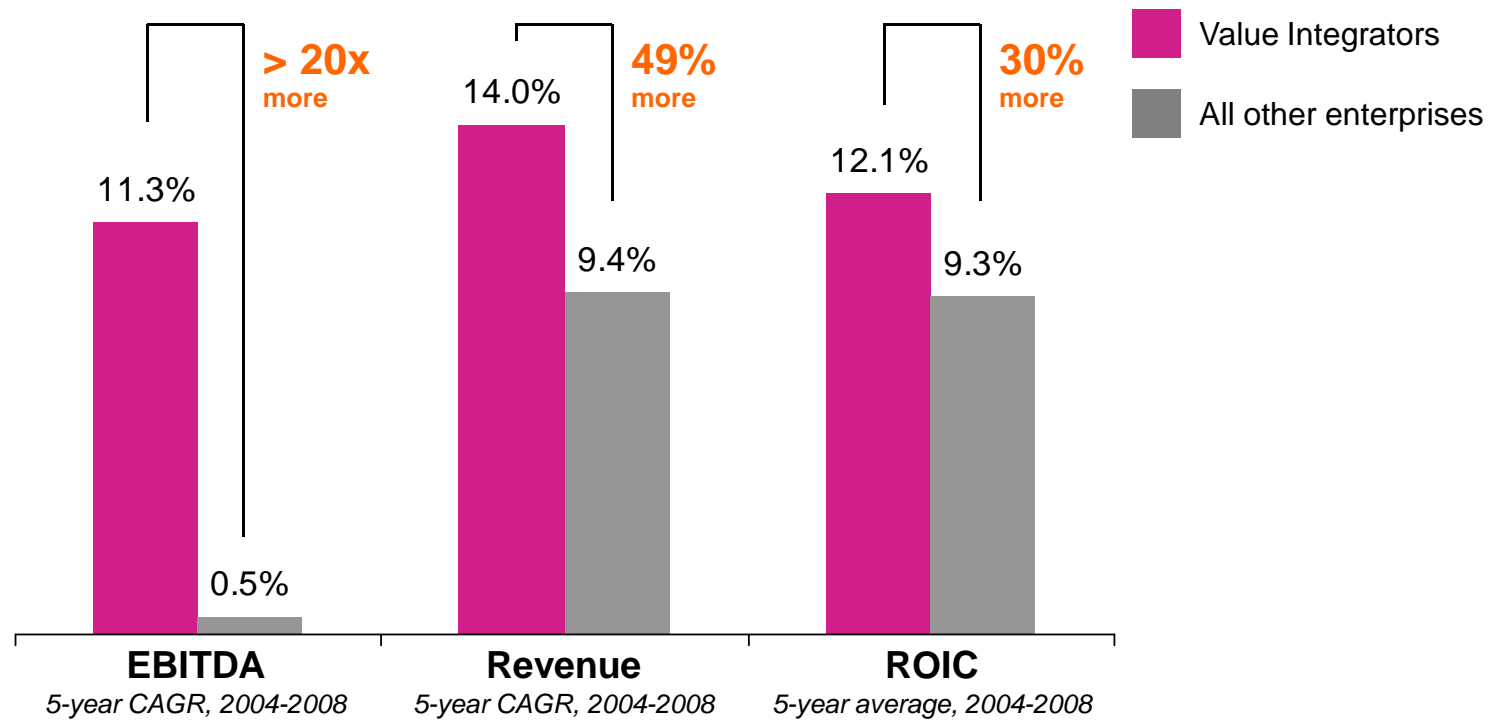


- Scorekeepers**
 - Data recording
 - Controllership
 - Multiple versions of the “truth”
- Disciplined Operators**
 - Finance operations focused
 - Information provision
 - Performance interpretation
- Constrained Advisors**
 - Analytics focused
 - Sub-optimal execution
 - Fragmented data
- Value Integrators**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

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

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

Efficiency + Business Insight Contributes to Outperformance

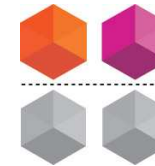


Value Integrators also have an almost 20% better operating efficiency ratio than all other companies examined.

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.”

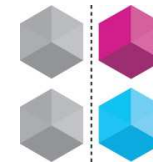
*Bob Driessnack
CFO, Intermec Inc.*

“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*

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*

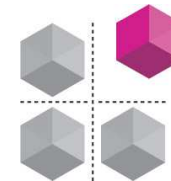
Theme #3

- 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*

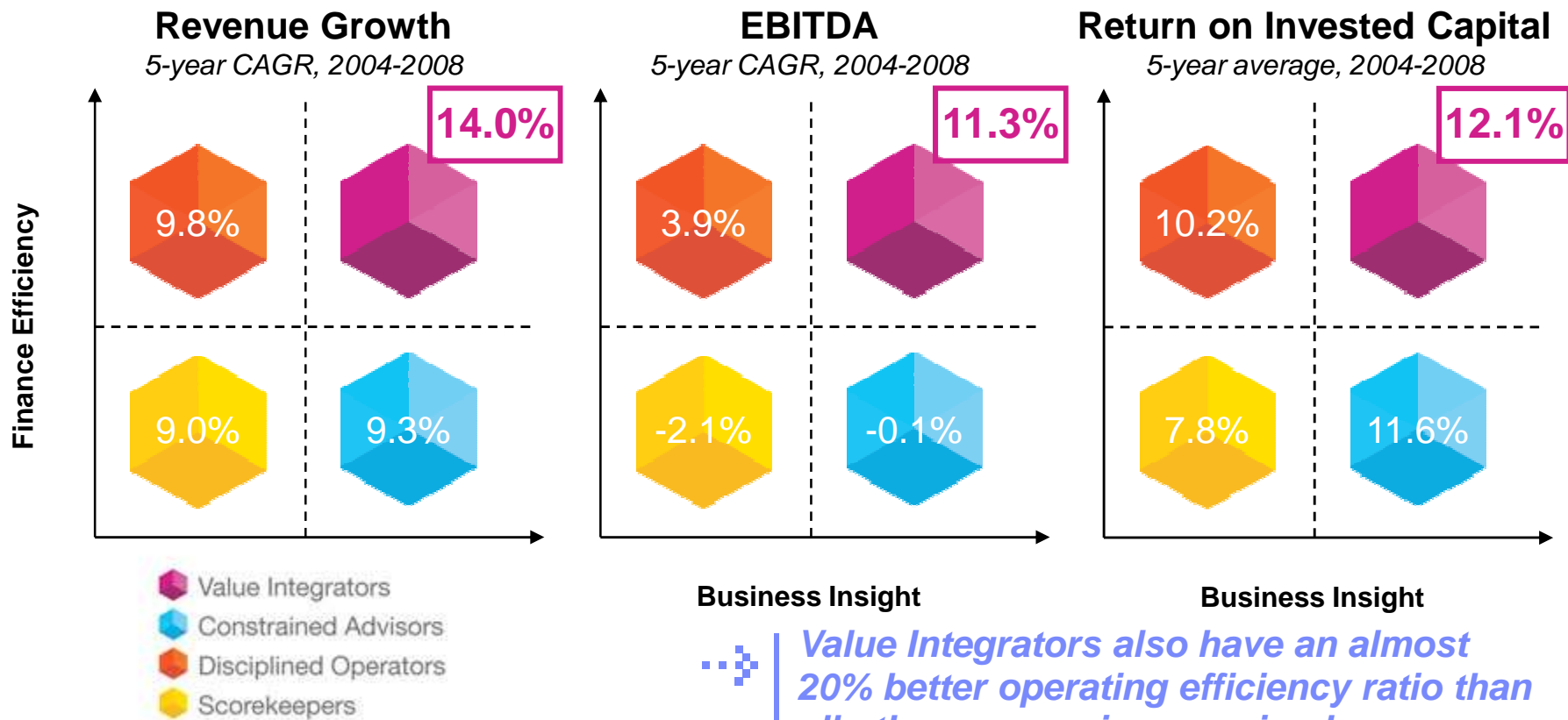


“Our job is to focus the enterprise on making timely, risk-based decisions by providing access to the right business-relevant information and insight-driven analytics.”

*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



Business Insight

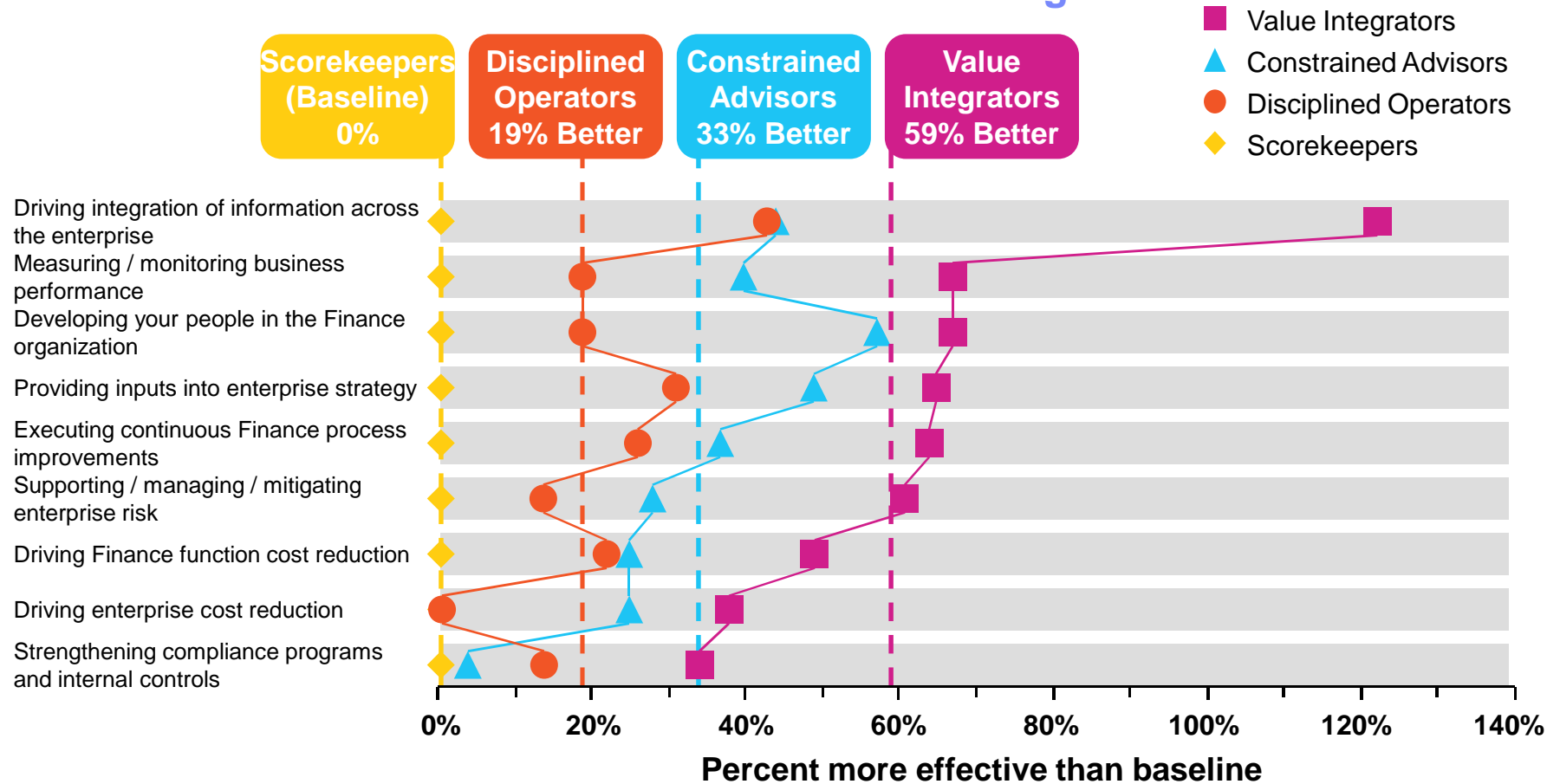
Business Insight

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
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Those that excel in both efficiency and business insight are more effective than those who excel in only one dimension

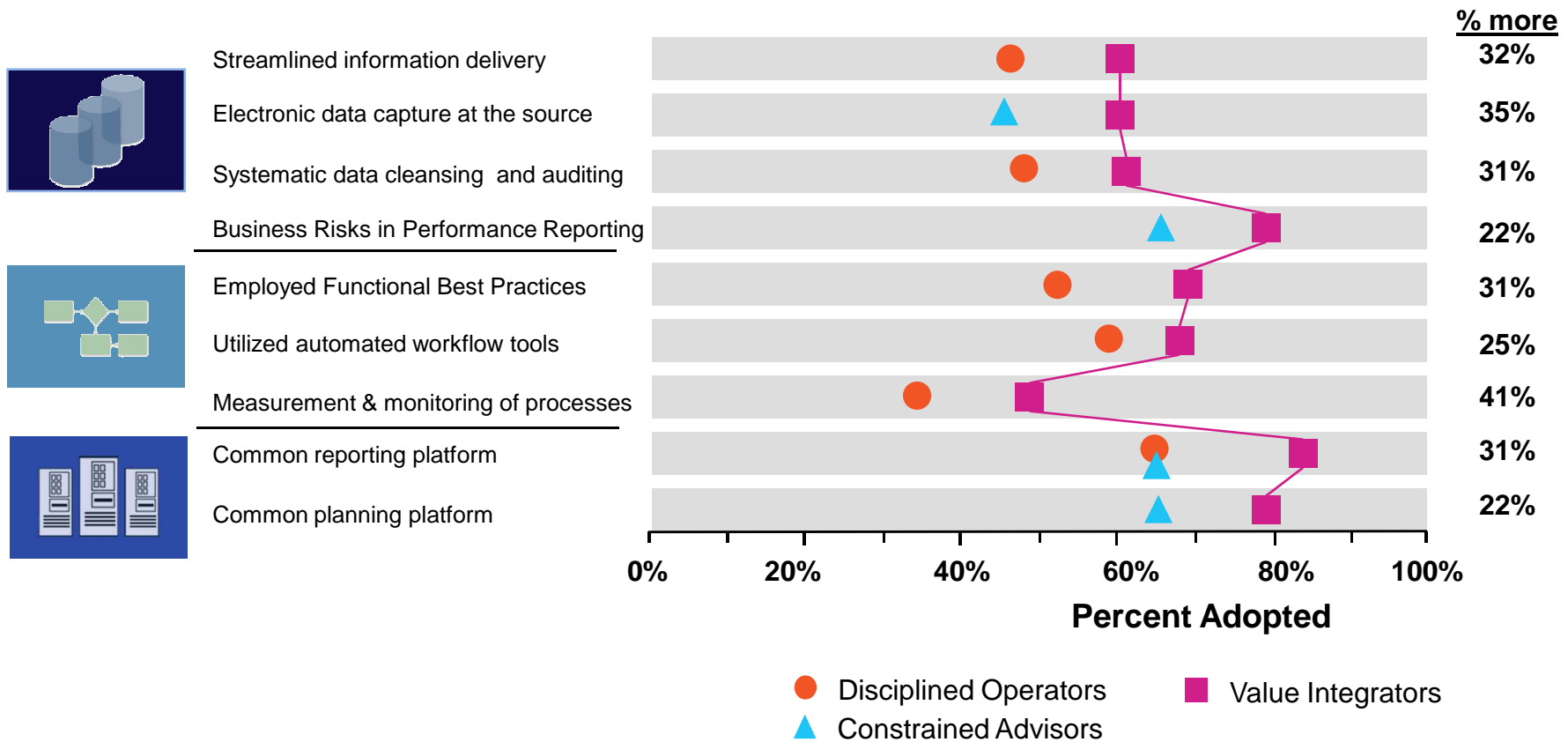
Effectiveness Across the Full CFO Agenda



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?



N = 1,454 to 1,469

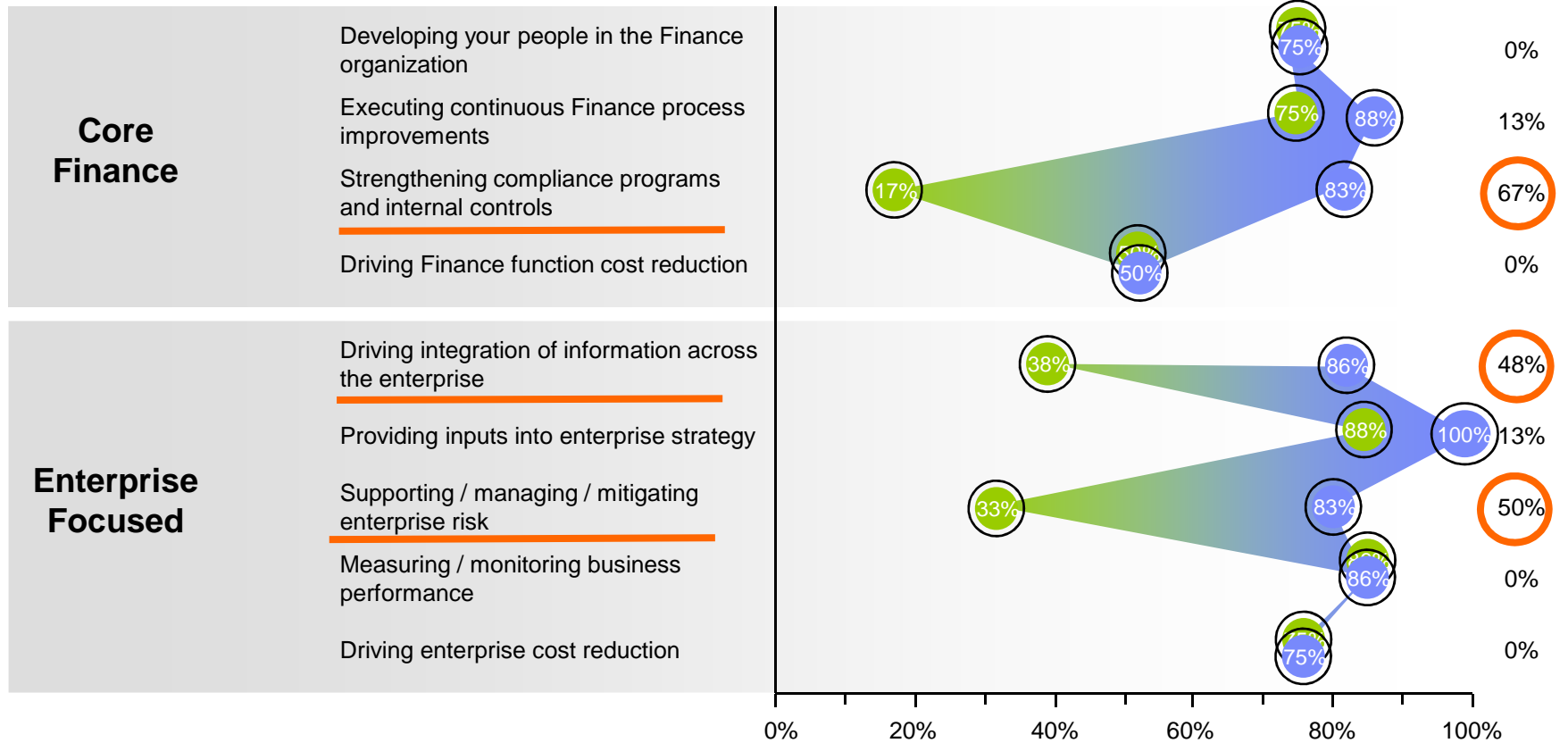
Note: Defined as those enterprises selecting [5] To a very large extent or [4] on a 5-point scale where [5] To a very large extent and [1] Not at all
 Source: IBM Institute for Business Value, The Global CFO Study 2008, 2010

Kihívások Magyarországon

A pénzügyi vezető feladatai: fontosság kontra sikeresség

● Importance
● Effectiveness

Gap

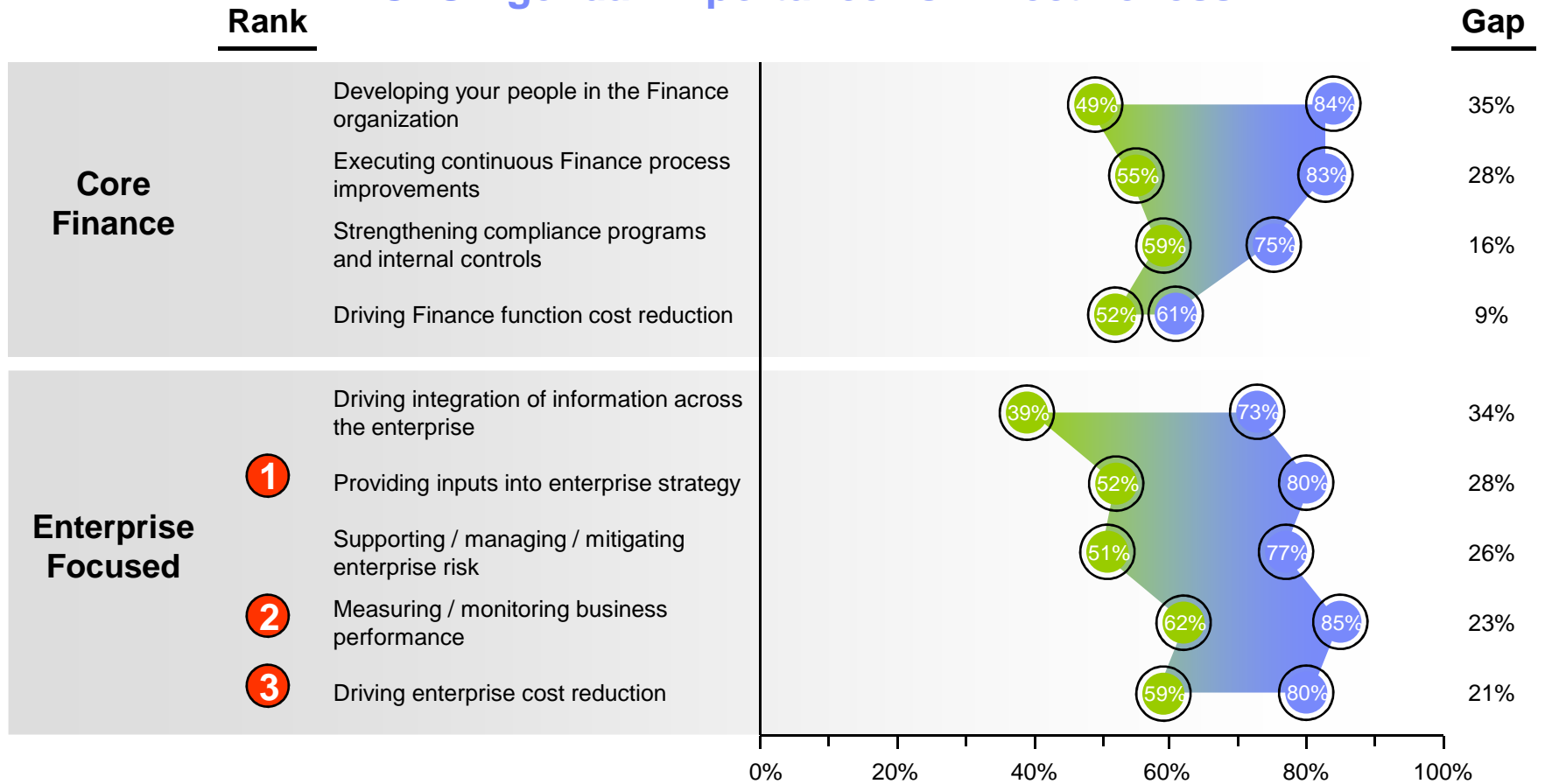


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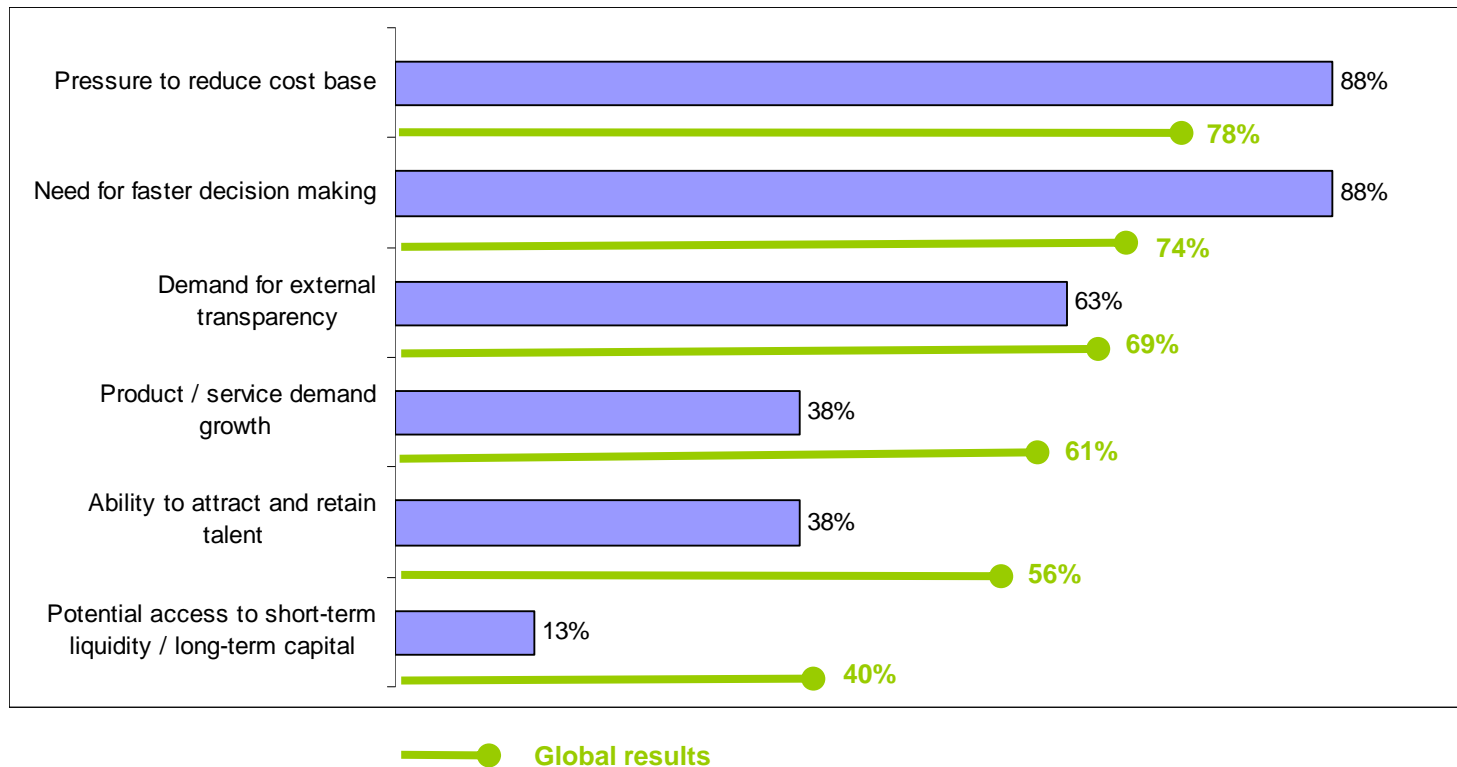
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Source: IBM Institute for Business Value, The Global CFO Study 2010

Hungarian CFOs believe that industry / sector pressures will increase challenges and opportunities over the next three years

Industry / Sector Changes Over the Next Three Years



N = 1,844 to 1,905

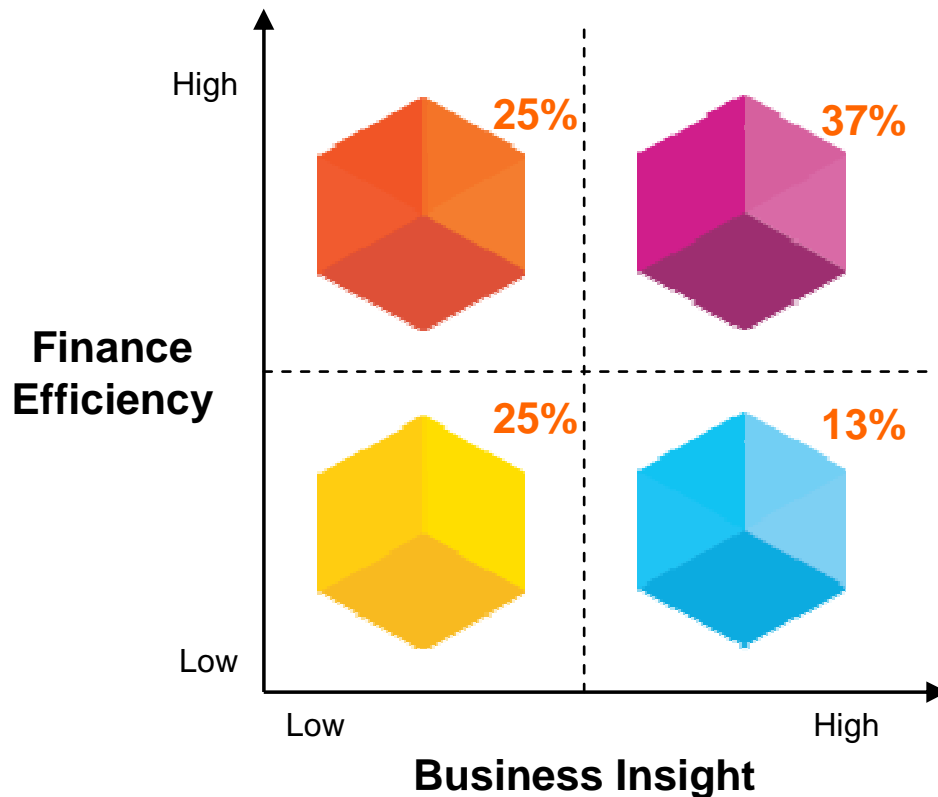
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Source: IBM Institute for Business Value, The Global CFO Study 2010

Hungarian participants segmented by efficiency and business insight

Finance Profiles



- Scorekeepers**
 - Data recording
 - Controllership
 - Multiple versions of the “truth”
- Disciplined Operators**
 - Finance operations focused
 - Information provision
 - Performance interpretation
- Constrained Advisors**
 - Analytics focused
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 - Business decision making

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



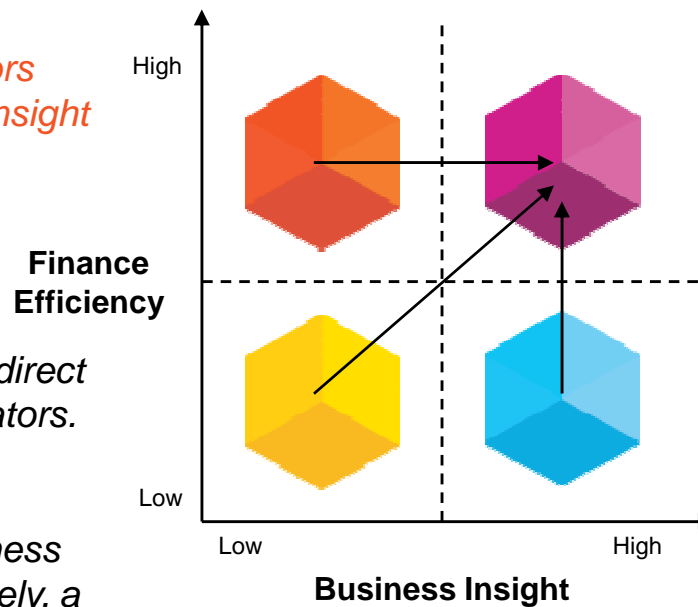
The Path Forward

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

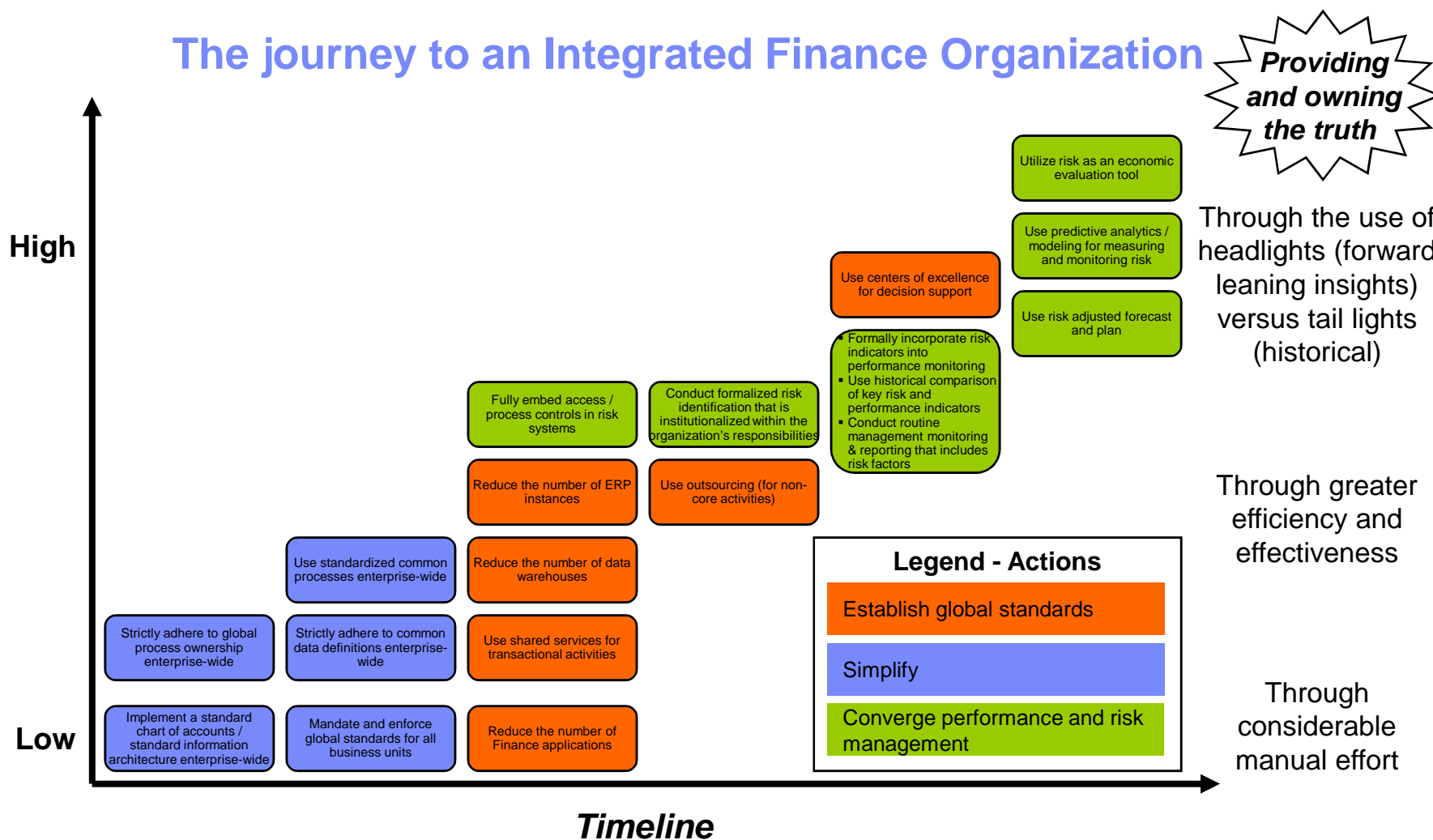
Constrained Advisors have good business insight, constrained by structural complexity, therefore address process and data standards to improve efficiency, accuracy and speed

- Value Integrators
- Constrained Advisors
- Disciplined Operators
- Scorekeepers

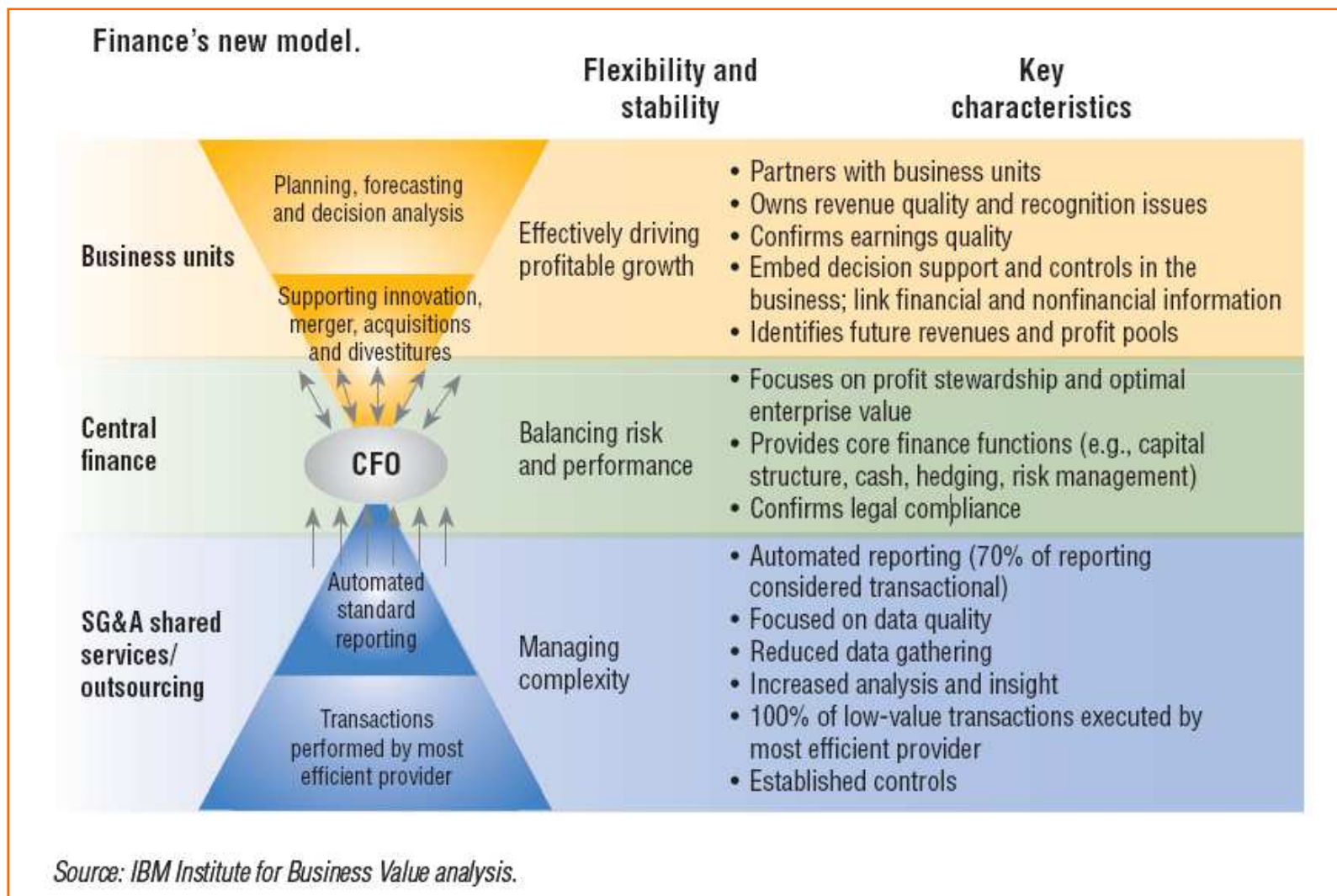
Source: IBM Institute for Business Value, The Global CFO Study 2010

Below is perspective on how enterprises grow, evolve and transform their capabilities over time

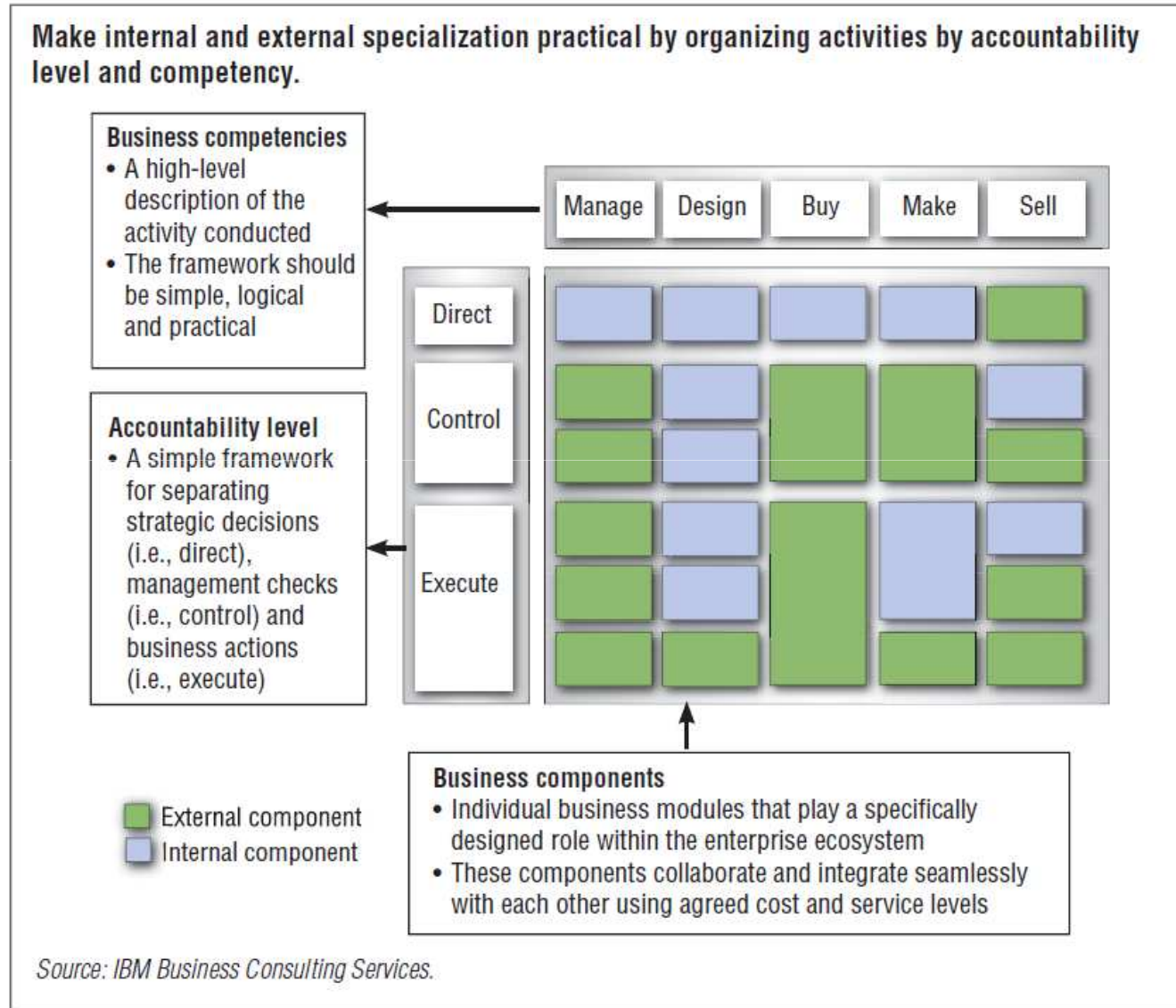
The journey to an Integrated Finance Organization



New Operating Model



CBM



IBM Finance Transformation

Our Strategy is built around Transformation – our enterprise model evolved based on Innovation and Global Integration

We saw Change Coming...

- Reality of **Global Integration**
- Emergence of a New Computing Model
- Innovation and Integration



Up to 1990s



2000 and beyond



... and Transformed IBM

- Shift to higher value business
- Invest in Growth Markets
- *Global Integration*
- Invest in Innovation
- *Ongoing productivity and margin improvement*

Consistent processes and global ownership drive efficiencies



- **Integrate:** Place all resources under one global leader
- **Automate:** Eliminate non-value add steps and use tools and technology to streamline the workflow
- **Optimize:** Decide where each process is best performed – locally, regionally, globally
- **Elevate:** Move resources to higher value-add work to drive further efficiency and effectiveness

Finance Transformation

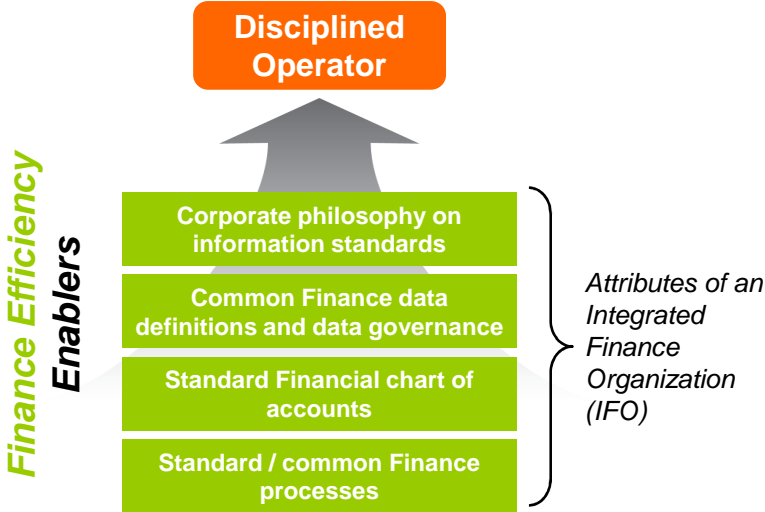
Why?

- **IBM Finance** was *highly decentralized – a maze of systems*
- **14K finance employees** was *2 times competition*
- **High percent of time spent on administrative tasks**
- **Lack of integration and unique measurement systems led to inconsistent data**
- **Finance viewed as low value add**

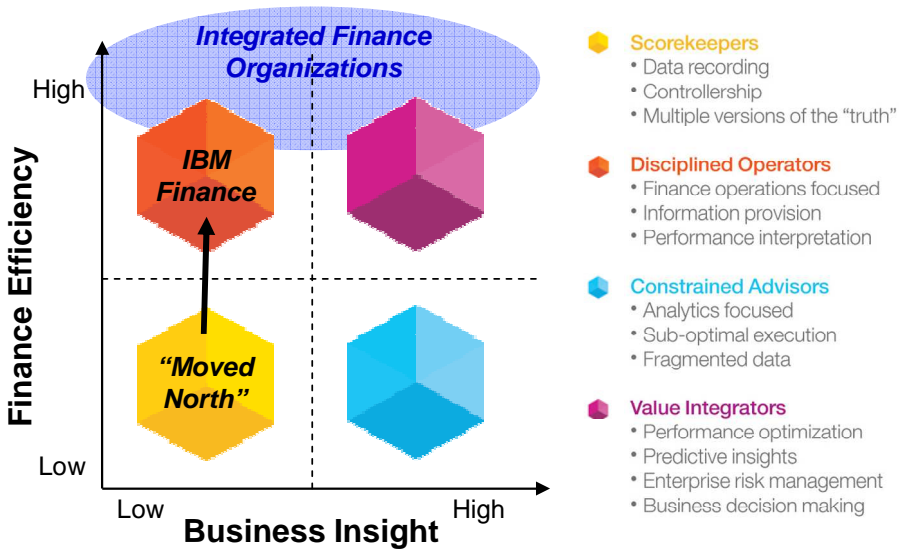
What we did

Became a Disciplined Operator

- Drove a 3-prong approach: process, data, IT
- Formed 8 process teams, driven by external benchmarks and best practices
- Created common chart of accounts, information warehouse and productivity workbench
- Standardized controls, reduced data centers and key applications



Source: IBM Global Business Services, The Global CFO Study 2010



Finance Transformation

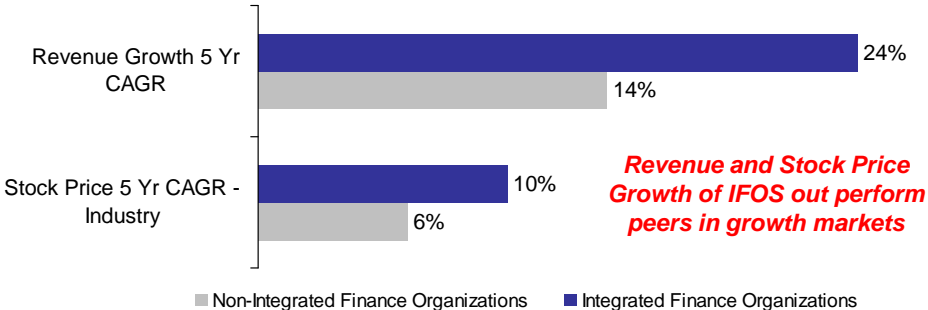
How we have evolved

- **Focused on the basics ('94 – '98)**
 - Standard / Common Process
 - Automation
 - Functional Best Practices
 - Financial Reporting
- **Integrated the Enterprise ('98 – '02)**
 - Shared Services
 - Web Enablement
 - Core Competency
 - Decision Support
- **Moved to globalization ('02 – present)**
 - Process Outsourcing /Global COEs
 - Technology Exploitation
 - Rationalized ERP
 - Information On Demand



Impact

- **Optimized global capability**
 - ✓ Increased use of global support from 12% in '05 to 40% in '08
- **Shift to higher value work**
 - ✓ Increased decision support work from 30% in '94 to 70% in '08
- **Lowered expenses**
 - ✓ Lowered expense to revenue share from 3% in '94 to 1% in '08
- **Focused on employee development**
 - ✓ New career paths inside and outside of Finance organization



	1994	1996	2005	Change vs. 1994
Financial data centers	67	15	6	-91%
Key applications	145	95	44	-70%
Days for accounting close	18	8	7	-62%
Estimated Finance operations expense*	\$2.1B	\$1.4B	\$1.2B	-43%
Estimated Finance ops exp / revenue*	3.3%	1.8%	1.3%	-2.0 pts

Finance Transformation

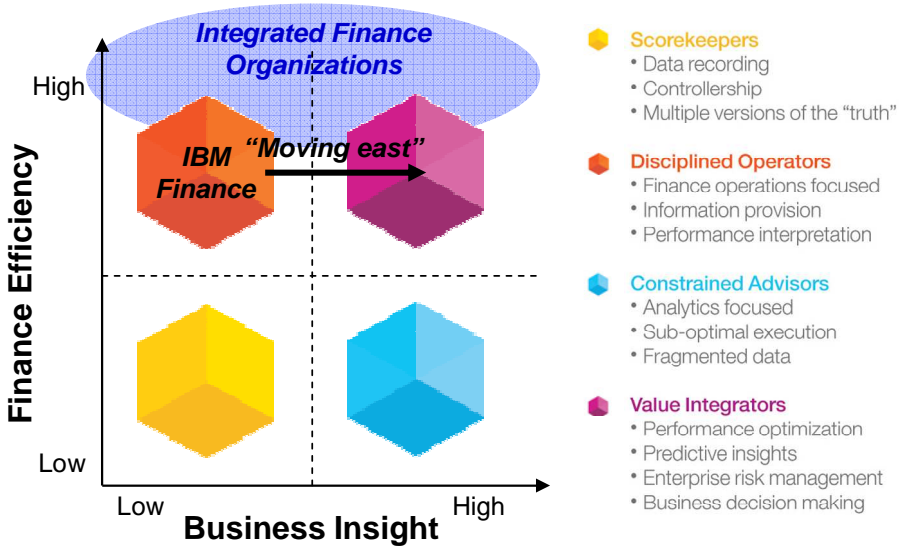
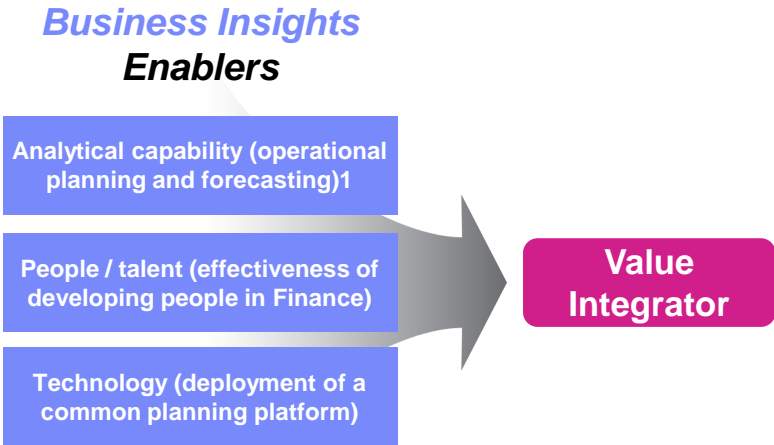
What's next?

Becoming a Value Integrator

- Predictive and forward-looking insights
- Performance optimization
- Automated production of key metrics
- Analytics to enable self service
- Business analysis and interpersonal skills to communicate, convince and influence

How we will get there

- Build technologies and tools to support business analytics
- Embed predictive capabilities into operational systems and processes
- Invest in analytical and “consultative” skills development of employees – helping them become “trusted business advisors”



Source: IBM Global Business Services, 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 <p>How can you increase the effectiveness of finance to satisfy rising expectations?</p> <p>How do you drive the integration of information across the enterprise?</p> <p>How do you control costs and improve productivity?</p>		Business Insight <p>How do you ensure data integrity to produce valid insights?</p> <p>Do you have the business insight to drive performance improvement beyond finance?</p> <p>Does your Finance organization have the talent to provide forward-looking insight?</p>

