

Beyond ERP: Three Strategies for Driving Sustainable Competitive Advantage

By Shawn Fitzgerald and Tom Willman

EXECUTIVE SUMMARY

Digital World Class™ chief financial officers (CFOs) are strategic business partners that actively influence their organizations. These leaders recognize that value today gets created by intangibles such as data, talent, intellectual property and technology, and they have moved beyond legacy ERP systems to embrace cloud-native platforms that increase insight, support more agile ways of working and empower talent. The digital transformation initiatives they sponsor are designed to enable finance to move from being a traditional business partner to a value-creating partner using predictive insights to shape and execute business strategy. Digital World Class organizations that have completed a digital transformation are 60% more likely to develop reports with actionable commentary that influences future activities, rather than merely explaining the history. In addition, they will spend 64% more time generating insights and analysis than collecting data. The Digital World Class CFO is 23% more likely to be viewed as a strategic business partner in these organizations.

Digital World Class CFOs also recognize the importance of investing in technology, spending 42% of their total budgets on this – a 57% increase per finance full-time equivalent (FTE). Simultaneously, they operate at a 42% lower cost than their peers. These investments have provided speed, scale and agility over time to successfully exceed the expected delivery of value-added actionable insights for the business.

Digital World Class CFOs recognize that there are three strategies comprised of six levers that their organizations need to address as they transform. To begin, Digital World Class leaders must focus on technology-enabled business processes, emphasizing proactive decision making that utilizes modern cloud-based architectures.

Digital World Class CFOs know they need to create sustainable competitive advantage for their organizations. As Arie de Geus (a founding member of the Society for Organizational Learning) points out, “In the future, the ability to learn faster than competitors may be the only sustainable competitive advantage.” Digital World Class CFOs understand that they can create this sustainable competitive advantage through three critical strategies of investing and accelerating in their finance digital transformation, serving as a strategic advisor to the business, and securing finance data and turning that information into actionable insights.

The Hackett Group has identified the six levers across these three strategies that companies need to transform themselves into a Digital World Class CFO, creating their sustainable competitive advantage (Fig. 1):

Strategy one: Invest and accelerate finance digital transformation

1. Technology enablement
2. A modern cloud architecture

Strategy two: Serve as strategic advisor to the business

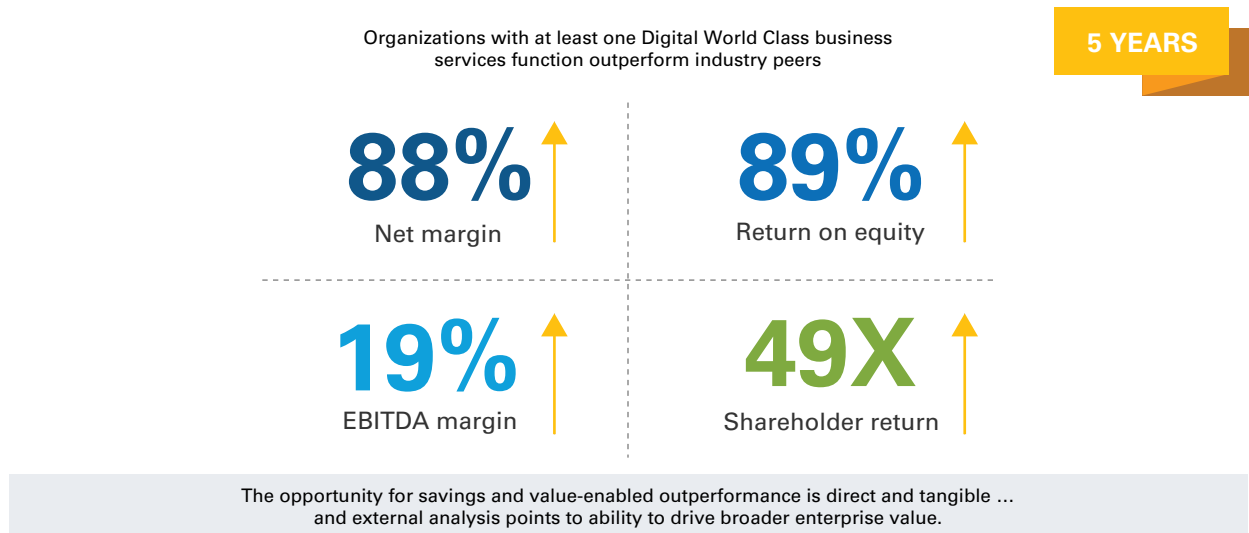
3. Operating model evolution
4. End-to-end process ownership

Strategy three: Secure finance data and turn information into actionable insights

5. Data and analytics
6. Talent management

Achieving Digital World Class has a direct and meaningful impact on enterprise performance over time. It is a source of sustainable competitive advantage for both the CFO and the enterprise overall.

FIG. 1 The Digital World Class™ advantage



Source: The Hackett Group 2022 Finance Benchmark Analysis

BEYOND ENTERPRISE RESOURCE PLANNING (ERP): THE ADVANTAGES OF DIGITAL WORLD CLASS AND THE THREE WAYS TO DRIVE SUSTAINABLE COMPETITIVE ADVANTAGE

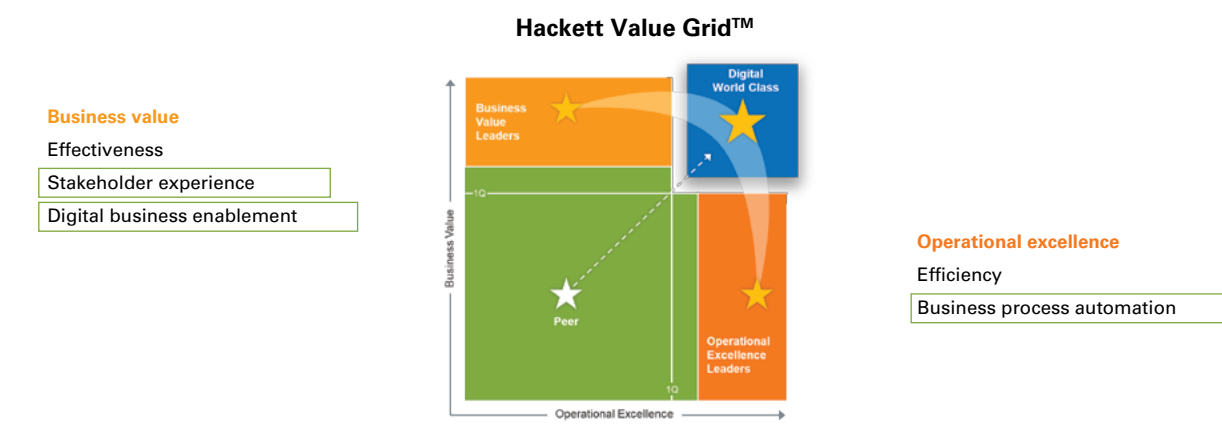
The Advantages of Digital World Class

Digital World Class organizations, as defined by The Hackett Group, strike the optimal balance between operational excellence and business value (Fig. 2). They do this by optimizing their service delivery model, developing leading-edge capabilities, and deploying

proven and emerging best practices. As a result, Digital World Class organizations are able to compete with top global companies, even if they may operate on a smaller scale.

Digital World Class CFO organizations operate at a significantly lower cost with fewer FTEs than their peers. In addition, they deliver more business value at a faster pace (Fig. 3).

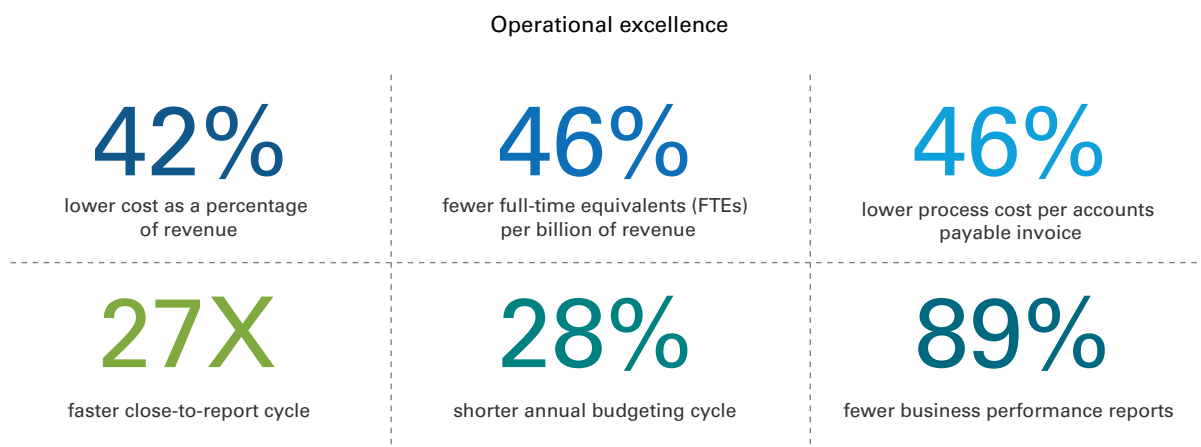
FIG. 2 The Hackett Value Grid™



Business value = Effectiveness, experience, digital business enablement
Operational excellence = Efficiency, business process automation

Source: The Hackett Group 2022 Finance Benchmark Analysis

FIG. 3 The Digital World Class™ advantage: Operational excellence drivers



Source: The Hackett Group 2022 Finance Benchmark Analysis

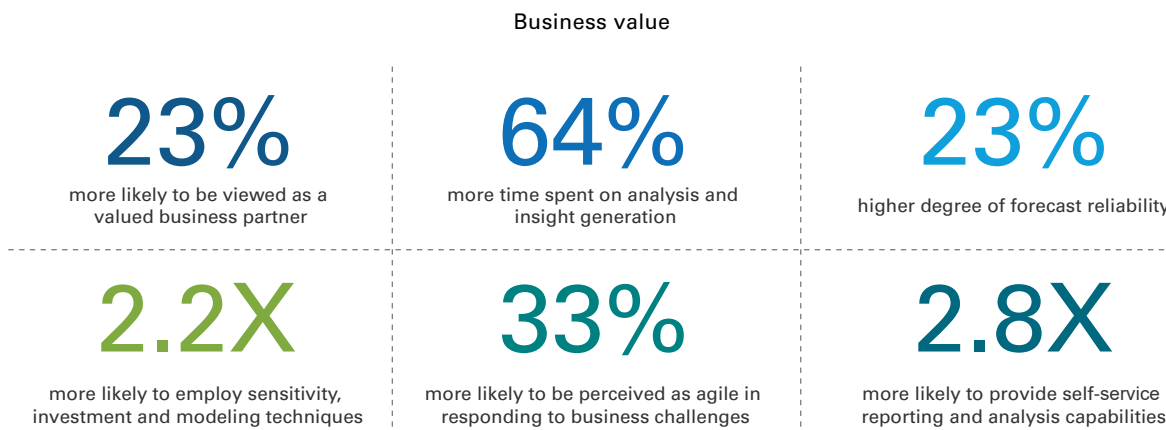
Digital World Class CFOs are more likely than their peers to be seen as strategic business partners because they generate more actionable real-time insights that provide business value (Fig. 4).

Digital World Class organizations find value in adopting core finance solutions that bring disparate processes together by anchoring on a flexible and intelligent data source that is able to take in large quantities of financial, external and operational information. Account-to-report organizations are taking the digital lead, triggering a true transformation of the finance

function. They are pulling together vetted financial and operational data from a single source of truth and automating routine activities.

The application of an intelligent data core extends beyond traditional finance departments to travel and expense (T&E) and procurement. An example of this is when finance is able to use optical character recognition (OCR) to reduce friction when capturing expense receipts or supplier invoices. Using machine learning (ML), the system can then route supplier invoices and suggest invoice assignment to the correct accounts payable clerk.

FIG. 4 The Digital World Class™ advantage: Business value drivers



Source: The Hackett Group 2022 Finance Benchmark Analysis

THREE STRATEGIES TO DRIVE SUSTAINABLE COMPETITIVE ADVANTAGE

The Hackett Group's 2022 Key Finance Issues Study highlights finance's top-three priorities (Fig. 5).

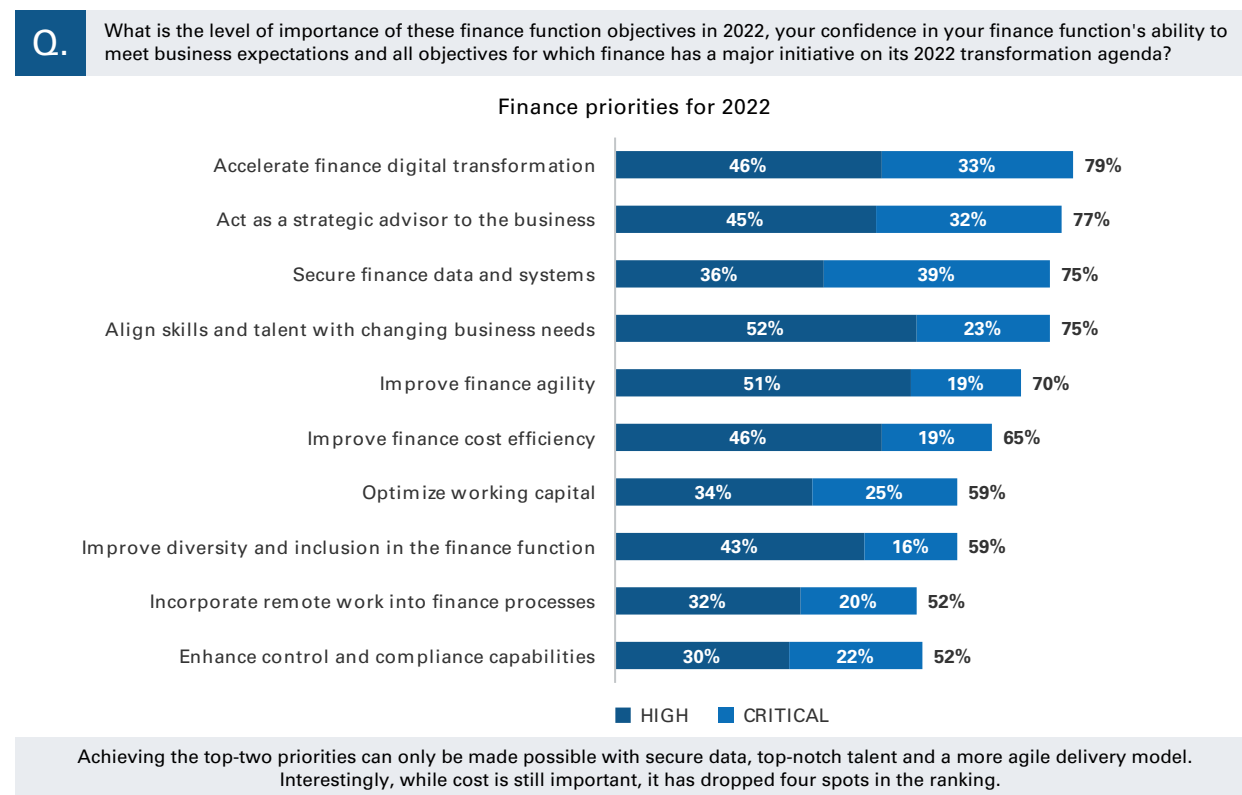
It emphasizes the need to leverage technology, educate and partner across all business functions to create empirical data-driven cultures (Fig. 6).

FIG. 5 The three strategies that drive sustainable competitive advantage

STRATEGY	SIGNIFICANCE	IMPERATIVE
1. Invest and accelerate finance digital transformation	Digital transformation has now become finance's top priority, with 79% of firms citing this as their focus for 2022. Just over one-third of these same firms said that it is a critical priority.	Finance must be prepared to invest in technology to reduce cost and create new capabilities. It can do this through aggressive adoption of cloud, analytics, robotic process automation (RPA), ML and artificial intelligence (AI).
2. Serve as strategic advisor to the business	77% of companies say this is a priority, with 32% of these identifying it as a critical initiative.	In today's climate, enterprises increasingly rely on finance for informed advice to drive strategic decision making as they navigate digital transformation, inflation and global disruption. Top organizations leverage advanced analytics to provide insights for goal setting and deploying resources.
3. Secure finance data and turn information into actionable insights	Companies cited cybersecurity risk and inflation as key risks for 2022, with 75% of businesses stating this is a priority and 39% of these saying it is a critical enterprise initiative.	Finance must secure sensitive data by controlling and protecting access to it. It must also lead efforts to transform data into meaningful and actionable insights for the business.

Source: The Hackett Group 2022 Key Issues Study

FIG. 6 Finance's top priorities include accelerating digital transformation, strengthening its strategic advisory capabilities and securing data



Source: The Hackett Group 2022 Key Issues Study

As The Hackett Group's 2022 blog "[Data Drives Digital World Class™: Finance must drive data quality and data-driven decisions to thrive as a world-class organization](#)" denotes, while data proliferation drives the need for digital processes and capabilities, many organizations are not effectively leveraging their data as a source of sustainable competitive advantage.

Accuracy must be achieved with speed and scale in a digital world, adapting to evolving business and operational conditions. Traditional working methods only allow finance organizations to support and report on the business they serve.

The pressure is on for finance to be more agile, which means continuous scenario planning, quick-turn business process changes and reporting available in seconds instead of hours.

The implications of these 2022 top-three finance priorities are clear; CFOs must reimagine their role and the roles of their finance organizations. As player-coaches, they are influencing the business in real time to improve processes and outcomes. By transforming themselves and their teams, CFOs empower organization wide improvements, such as efficient data-focused decision making and an insight-driven culture.

STRATEGY ONE: INVEST AND ACCELERATE FINANCE DIGITAL TRANSFORMATION

Digital transformation has now become finance's top priority, with 79% of firms citing this as a main focus for 2022

Organizations are developing business and investment strategies to deliver ROI-driven use cases that leverage emerging technologies such as cloud, analytics, RPA, ML and AI. The goals of these new business and investment models are centered around creating an information-based competitive advantage for the business. These new models also emphasize developing and delivering information-enhanced products, services and experiences to delight customers. These investments cost trillions of dollars across hardware, software and services.

Depending on business function and process goals, both digitalization and digital transformation can offer value when modernizing your ERP. Digitalization provides

scale and economy, whereas digital transformation can bring breakthrough capabilities that result in new sources of value. Therefore, it's essential to understand the organization's goals and map a path accordingly.

Digitalization and digital transformation – what's the difference?

Digitalization is about enabling or improving processes using digital technologies and digitized data.

Digitalization can increase productivity and efficiency while reducing costs. However, unlike transformation, digitalization only incrementally improves existing business processes; it doesn't transform them.

An example of digitalization to a cash process would be – a company implements an ERP system that integrates order capture with their accounts receivable module and billing clerks start sending electronic invoicing to customers versus mailing out paper ones. While this is incrementally beneficial, no actual RPA has occurred.

Digital transformation is step-change transformation, going well beyond digitalization by reimagining entire business models and processes. Some key enabling technology examples of digital transformation include the cloud, big data, analytics and AI.

An example of digital transformation in a cash process includes implementing a cloud-based ERP system where all aspects of the process are automated and where ML is embedded into transactional activities as part of seamless end-to-end processes, eliminating manual, archaic ways of operating. Some ideas could include adopting RPA to send invoices, platforming the entire customer experience, launching online availability of PDF invoices, researching voice of the customer (VoC) to deliver customer-centric solutions or adopting digital payment options. On average, Digital World Class organizations process more than 128,000 invoices per FTE, versus approximately 50,000 invoices for peer organizations. This represents an increase of 158% in throughput. These same Digital World Class companies also collect 275% more cash per FTE than their peers.

These are compelling reasons why companies should accelerate their digital transformation efforts, leading to superior business results and world-class operations.

STRATEGY TWO: SERVE AS STRATEGIC ADVISOR TO THE BUSINESS

Digital World Class CFOs are influencers

Leading finance groups influence their organizations by arming them with data-driven insights and partnering across all functions. Digital World Class CFOs leverage cloud-based digital technologies to review data in real time by applying enterprise-level analytical tools and frameworks. As a result, the Digital World Class CFO informs the organization and compels it to make thoughtful and impactful decisions regarding growth, profit and cash flow.

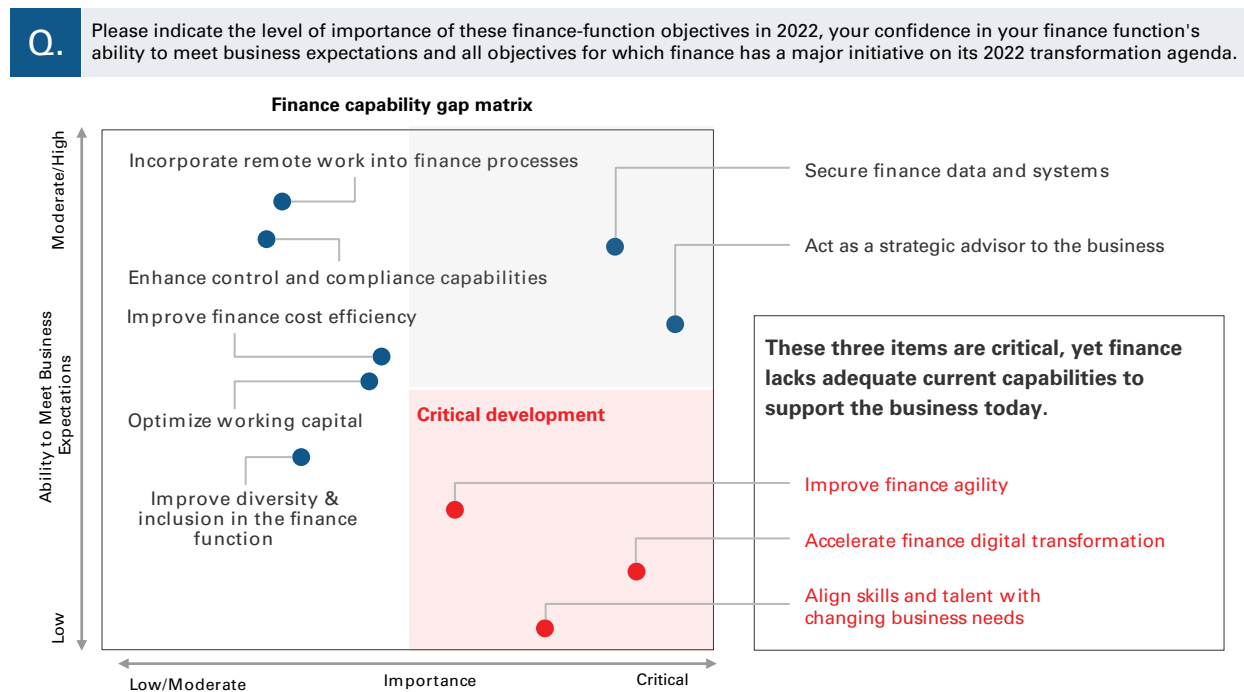
Digital World Class CFOs are masters of change management and recognize:

- Technology is a force multiplier. An ERP system with embedded reporting and analytics is a game-changer for organizations that understand that data capture and analytics need to reside together in a native cloud environment.

- Transactional work can be automated and employees can move into higher-value roles.
- Object-based data models provide greater insight from native dimensionality.
- In-memory architectures provide continuous accounting that delivers a real-time view of the business.

The Hackett Group sees that Digital World Class companies employ 61% fewer finance professionals than their peers because they have automated more transactional work and empowered their teams with access to analytical tools. However, finance lacks adequate current capabilities to support the business today (Fig. 7).

FIG. 7 Filtering the finance priorities against its ability to meet expectations yields three clear development needs



Source: The Hackett Group 2022 Key Issues Study

Peer CFOs are mired in legacy ways of working because:

- The CFO is working harder, not smarter. The reliance on outdated technology and cobbled-together, antiquated processes has them operating significantly slower than the pace of business today.
- The CFO is not actively improving business performance. Instead, they spend most of their time and resources on traditional finance activities of transaction processing, reconciliations, closings, consolidations and post-close analysis of results.
- The CFO lacks complete and timely access to data. When they finally get visibility it's post-period close and the results are stale, reflecting what happened in the past, missing opportunities to drive meaningful improvements going forward.
- The finance team is tied to manual, non-scalable ways of working, requiring data dumps, and excessive use of Excel. They spend time researching why numbers landed the way they did, being reactive rather than proactive.

STRATEGY THREE: SECURE FINANCE DATA AND TURN INFORMATION INTO ACTIONABLE INSIGHT
While traditional CFOs are being forced to consider alternatives to traditional ERPs, Digital World Class CFOs embrace opportunities for transformation

Leaders ask finance organizations to deliver more with less budget amid pervasive staff shortages. As a result, Digital World Class CFOs are increasing digital technology investments to automate transactional work and improve analytical competencies. The need to leverage technology is a way to compensate for the lack of critical finance skills but also increases decision support competencies, despite staff's skill shortfalls.

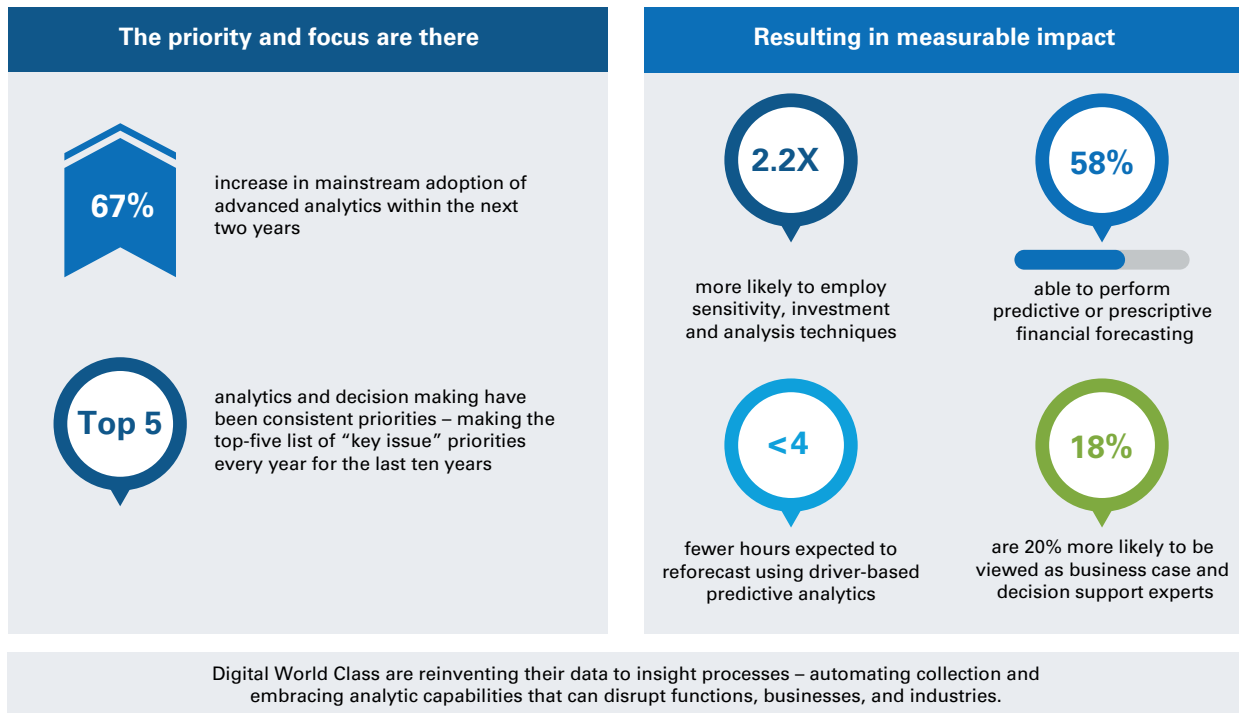
Digital World Class CFOs operate fundamentally differently than their peers in terms of analytical insight, leveraging modern technologies and allocating resources to higher-value activities (Fig. 8).

1. Insights driven by ERP systems with native object data models and in-memory processing provide

continuous accounting, eliminating the time delays associated with traditional batch processing. In what we'll term "digitally native accounting" (DNA), results in a real-time view of the business that better supports accounting and finance. This DNA provides "intelligent data" because it's stored similarly to how the human brain stores data, as objects containing transactional history and relational information. For example, an object like a "supplier" is associated with purchase orders, contracts, invoices, etc., which are associated with payments and bank accounts. Because "intelligent data" provides a single source of truth, the data is considered reliable and trusted, a benefit that can make real and measured differences.

2. Digital World Class CFOs leverage modern technologies that enable them to easily integrate with a broader ecosystem, as well as achieve scale and agility. With flexible and secure frameworks, finance is empowered to make changes to existing business processes, reports and organizational structures, or create new legal entities, all without relying on IT resources. As a result, finance can operate at a 62% lower cost to support the business (Fig. 9).
3. Because Digital World Class CFOs leverage technology at scale and have greater real-time analytical capabilities than their peers, they allocate resources differently to improve their ability to deliver actionable insights and improve the business. Similarly, Digital World Class leaders have 40% more resources dedicated to planning and forecasting than their peers. With 36% more dedicated finance specialists servicing the business and 27% fewer resources for completing basic transactional activities, Digital World Class CFOs can better attract, upskill and retain finance talent. Going beyond ERP fundamentally empowers finance with the right tools and technology to operate with greater efficiency, and deliver more timely insights to the business, freeing up time to focus on other CFO objectives, such as partnering with the business (Fig. 10).

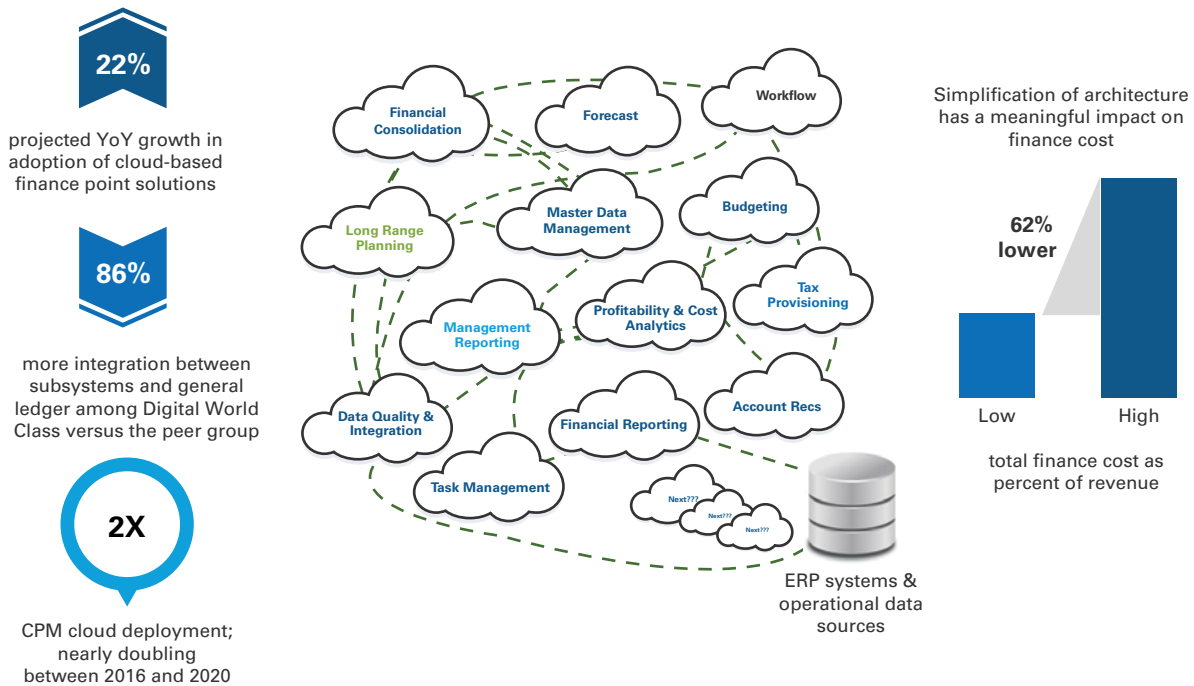
FIG. 8 Data and analytics



Source: 2022 Hackett research, Hackett benchmark database, Hackett stakeholder surveys

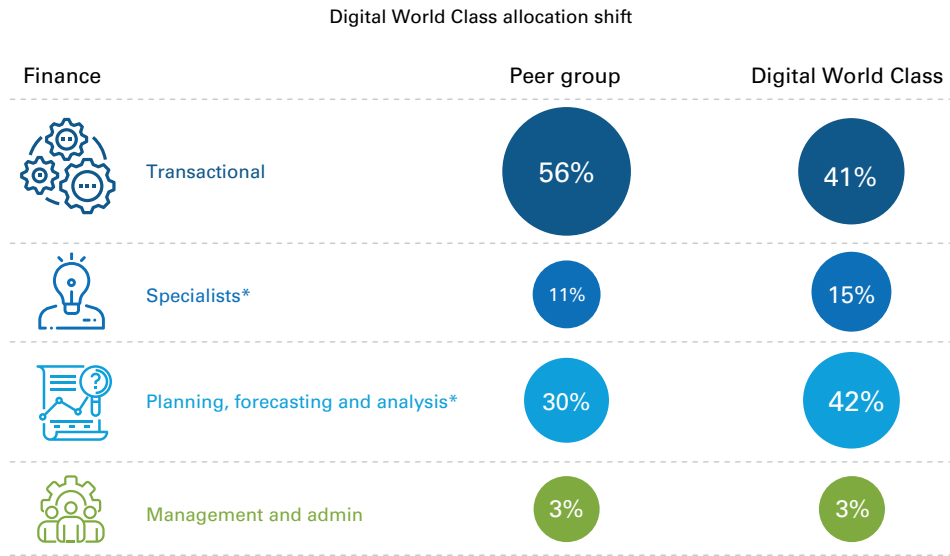
FIG. 9 Building a modern architecture

Digital World Class™ requires movement to a simplified and more unified modern architecture



Source: Hackett research, Hackett EPM cloud study, Hackett benchmark database, 2022

FIG. 10 Digital World Class™ allocates more resources to higher-value services



*Higher-value services

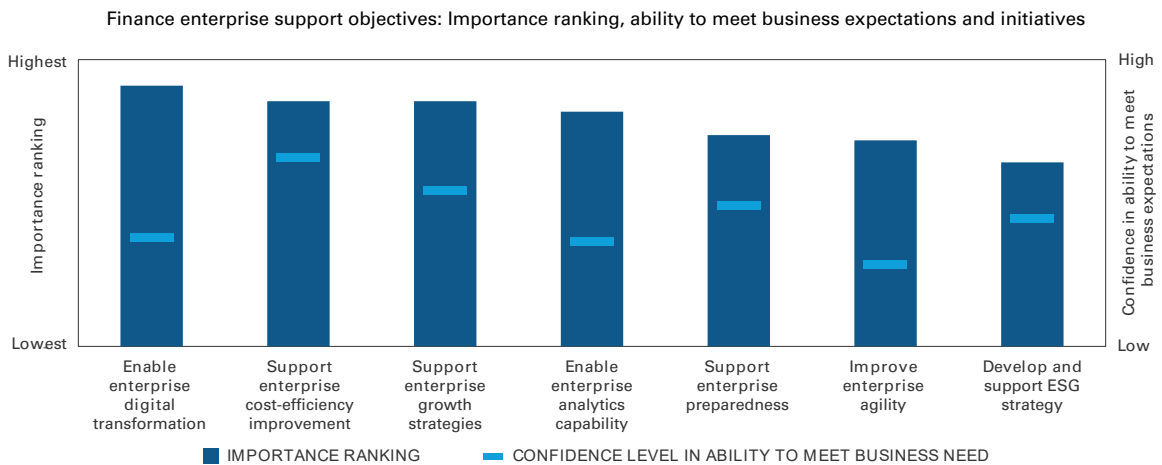
Source: The Hackett Group 2022 Finance Benchmark Analysis

The Digital World Class CFO has access to trusted data that delivers more timely insights, resulting in smarter decisions across the organization and

superior business outcomes over time. These competencies create a sustainable competitive advantage (Fig. 11).

FIG. 11 Finance must enable digital transformation and analytics capabilities to support the dual mandates of growth and cost optimization

Q. Please indicate the level of importance of the following enterprise objectives in 2022, your confidence in your finance function's ability to meet business expectations, and all objectives for which the finance function has a major initiative on its 2022 transformation agenda.



Significant gaps exist between the importance of key enterprise support objectives and finance's confidence in its ability to meet expectations, namely in digital transformation, analytics and agility.

Source: The Hackett Group 2022 Key Issues Study

CONCLUSION: THREE STRATEGIES FOR DIGITAL WORLD CLASS CFOS TO CREATE SUSTAINABLE COMPETITIVE ADVANTAGE

1. Invest and accelerate finance digital transformation
2. Serve as strategic advisor to the business
3. Secure finance data and turn information into actionable insights

CFOs transitioning from explainer to influencer require the rethinking of roles, responsibilities and how they inform and partner with the business. By embracing digital transformation, finance can achieve the speed, scale and agility needed to thrive in the future.

Bringing external data into a digitally native data model can improve finance's reporting and analytics capabilities. This means CFO personnel have a complete and real-time understanding of the data, freeing up more time and energy to focus on high-

value analysis, partner across the business, influence operations and improve outcomes.

By providing real-time insights, Digital World Class CFOs are a source of sustainable competitive advantage because the business is now learning, deciding and acting faster than the competition. These leaders create new sources of value for their organizations and open a world of potential cross-functional collaboration among finance, HR, operations, sales and other parts of the business. The CFOs provide intelligence through complete and contextualized data about what's happening in the business, providing improved, actionable financial and business insights.

Digital World Class organizations consistently create value across all key financial measures and demonstrate sustainable competitive advantage by moving beyond ERP.

About the Advisors



SHAWN FITZGERALD

Senior Research Director, Finance Advisory Practice

Mr. Fitzgerald is a certified Lean Six Sigma Black Belt and a globally recognized digital transformation technology researcher, author and public speaker. He's been published and quoted in numerous professional journals and papers including Forbes, The Economist and The Times; as well as having presented at the New York Stock Exchange. Mr. Fitzgerald has over 25 years of experience in mergers and acquisitions, corporate finance and treasury and process excellence, including leading the global order-to-cash Lean Six Sigma program at a Dow 30 company, and security thread design and manufacturing for the Reserve Bank of India's three highest banknote denominations.



TOM WILLMAN

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Mr. Willman has over 20 years of experience helping CFOs and other senior finance executives transform their organizations by deploying more efficient and effective processes, service delivery models and enabling technologies. Areas of expertise include planning and forecasting, close and consolidations, management reporting and analysis, and the design and implementation of shared services organizations. Previously, he spent 10 years with IBM Global Business Services and PricewaterhouseCoopers, consulting in their Finance Transformation practices, and several years in the Audit and Assurance practice at Coopers & Lybrand.

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