RACONTEUR

The Future CFO

sage

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This report looks at the future of the CFO in the post-COVID war for survival, offering inspiration to those on the front line.

CFO leads the path to success

In a crisis, the chief financial officer can be the hero who pulls a business through tough times and cashes in on new opportunities

Charles Orton-Jones

When asked for his view of the pandemic economy, Lord Sorrell, renowned for his punchy opinions, replied: “The tragedy of COVID-19 has only accelerated the speed of digital transformation and disruption.”

But the ad man, who began life as chief financial officer (CFO) of Saatchi & Saatchi and made his name as the founder of FTSE 100 giant WPP, added this grim warning: “It’s not like the dot-com bust, it’s not like 9/11, it’s not like the great financial crisis; it’s most like war.”

He’s right. This is an age of war-like chaos. In the next year, fortunes will be made and lost.

Industries re-invented. And at the heart of it all are CFOs.

For companies that need a new business model, the CFO is the mastermind. For some lucky enterprises, it's about managing explosive growth. The online crafts and hobbies website LoveCrafts saw visitors increase 266 per cent between March and August as consumers were stuck at home. Its beginner's guide to crafting for newbies grew by 6,499 per cent. It's a once-in-a-lifetime opportunity.

In less fortunate sectors, the CFO is leading the fight for funding. Who else can navigate the Coronavirus Business Interruption Loans Scheme or the Bounce Back Loan Scheme? There will be hard conversations with landlords, with creditors and suppliers.

Technology, naturally, will decide which CFOs outperform. Cloud systems help with scale. Cloud-hosted accounts eliminate issues around capacity. Software scales up and down as needed. A spike in purchases can be handled smoothly. Plus, the finance team can log on from anywhere with a cloud system, which is ideal for home working. It's a technology tailor made for the volatile coronavirus economy.

Automation is critical. When budgets are tight, it's vital that drudge work is handed over to machines. Invoice-chasing, payroll and expenses management must be automated. The finance team want to focus on strategy, not data entry.

The board depends on business intelligence, again the job of the CFO. Dashboards and reports can be auto-generated by the right technology, giving each department exactly the numbers they need, updated as often as required.

80% of CFOs see transformative change, e.g. in digital or innovation, as a strategic opportunity

BCG2020

51% say thinking of new ways to help the business with financial matters is the most challenging aspect of their job

Sage 2019

And costs must be driven down. The arrival of artificial intelligence, machine-learning and the cloud can cut costs in the financial sector by 30 to 50 per cent, according to the Bank of England.

Secret to growth

What's the secret of perpetual growth? One company seems to know. Moneypenny is a virtual personal assistant service. Its pool of PAs answer your calls, manage your diary and do any job you can think of. And each year Moneypenny posts 20 per cent growth with the consistency of a metronome.

In 2005, it was a £2-million-a-year company. Today it's over £50 million with a thousand staff servicing 20,000 clients. It acquires rivals. An expansion to the United States five years ago was a smash hit. And it does it in style as the company is a regular in the top five of the Sunday Times Best Companies to Work For list and winner of umpteen awards, including a Queen's Award for Export. Frankly, it's a matter of time before Harvard Business School professors show up and demand to know the formula.

So what's the secret? Obviously there are many factors, including a spectacular purpose-built HQ in Wrexham, with tree house meeting rooms, its own village pub and nature trails outside with an orchard. The Prince of Wales cut the ribbon on the "happiest workplace in the UK" in 2018. But behind it all is the finance department. CFO Mark Williams won Finance Director of the Year in Wales and is an eloquent spokesman on the role of CFOs in high-growth firms.

"We always think five to ten years ahead," says Williams. "If you want to grow, you need a finance function able to cope." He's happy to explain his set-up.

Candidates for automation

Williams' core principle is automation; the company should be able to grow without needing a bigger finance team. "Back in 2005 when I joined, I had four people in my team," he says. "Now our client base is many times larger, but we have just ten people in finance. It's down to our focus on efficiency. The moment a task is repetitive, it is the next candidate for automation."

Chasing late payments can be a nightmare of CFOs. It certainly was at Moneypenny for years. "We used to have spreadsheets and manage late payers manually," he recalls.

"With thousands of clients that is not sustainable." He implemented an automated solution. "This runs a nice UX [user experience] that tells our credit controllers who is seven days overdue. If the client makes a payment the system is updated, so the controllers know immediately and don't waste their time."

Automation has another dividend: accuracy. "When a computer is doing the numbers, the chance of an error is reduced," says Williams. "For a fast-growing company with thousands of clients, that is important."

Naturally, the mission now is to automate more of the finance function of the future. "Our next area of focus is automated dashboards," says Williams. "We need the ability to create information based on the needs of each person. Ceri [Henfrey], our head of operations, needs a higher level of detail than, say, our CEO Joanna [Swash], who wants a wider overview."

We make sure everyone has the numbers they need to make fast and accurate decisions

Moving to the cloud is vital: "Lockdown proved how important it is for people to be able to log on and do their work via a web browser. The cloud allows this. It also means easier third-party integrations. And there's no maintenance or hosting issues with cloud services. You always get the latest version. Upgrades are rolled out without you needing to do anything," says Williams.

Security is important too. Moneypenny's clients expect confidentiality and a breach is costly. Fortunately, cloud-based systems can be more secure than on-premises software. Lloyds Bank, for example, is migrating its core banking platform to a cloud provider. Data is encrypted at rest and in transit in what is known as cloud-native software design, a major upgrade on old-fashioned perimeter defences. Monzo, Britain's fastest-growing bank with 4.2 million customers, already bases operations entirely in the cloud. It's a sign of the times.

"Security is paramount," says Williams. "The cloud has developed so much and is so strong; I don't think we have any concerns." Above all, he wants to reshape the role of the finance department: "Automation and efficiency gives us time to reflect and offer insight to other departments. We are free to advise and consult."

Williams embodies the future of the CFO as a technologist, strategist even futurologist. It's how he keeps Moneypenny expanding year after year. Ever modest, he sums it up thus: "We make sure everyone has the numbers they need to make fast and accurate decisions. In the long run, that is what will allow us to keep growing fast."

COMMERCIAL FEATURE

Q&A

CFO under pressure: how finance experts can thrive in a crisis

Chief financial officers have a central role to play in businesses recovering from the coronavirus pandemic, says **Monica Arora**, executive vice president of commercial finance, at Sage

Q How has the coronavirus pandemic impacted CFOs in mid-sized companies?

A The biggest struggle is around managing cash flow and overheads. Much of the focus of the chief financial officer (CFO) will remain on resource planning and cash-flow forecasting to make sure they have enough cash to run daily operations. But cloud-based technology is helping. By moving towards online preparation and analysis of data, CFOs can provide more predictive and accurate cash forecasting, and plan for better outcomes.

Q How is the CFO role evolving as lockdowns ease all over the world?

A In the first two months of national lockdown, finance leaders took a reactive stance, understanding the UK government's support schemes and what commercial mitigation measures they needed to keep the business afloat. Now they are less reactive and have a chance to plan, knowing that the government's support schemes will phase out. Planning may be around deeper cost savings and synergies, perhaps making people redundant, and balancing fixed and variable spending.

But CFOs must still be able to respond quickly and accurately to ongoing uncertainty. They must continue to make sure they have the right cost profiles to keep the business afloat. They may also have to ask for more investment from the board, which is difficult given how tight margins have become.

With so many people working remotely, improving cybersecurity is also vital and in a medium-sized firm that may fall to the CFO, together with IT and legal teams.

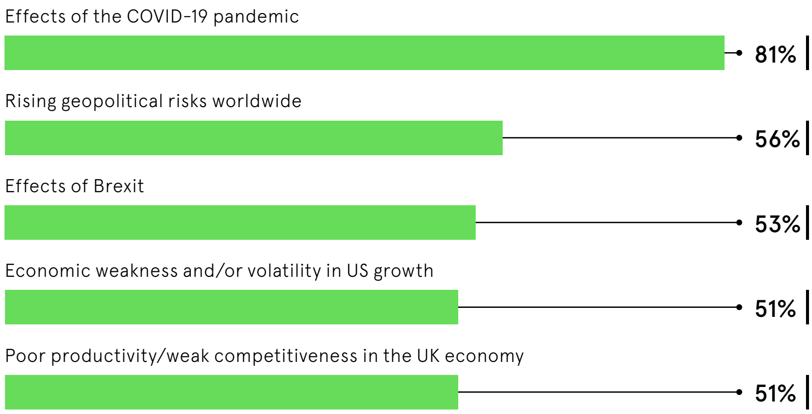
Q What technologies are available to help CFOs face these challenges?

A With so much uncertainty, being able to update forecasting models in a fast and agile way is essential. Financial-modelling, scenario-planning and predictive-analytics technologies will enable finance leaders to make the right decisions. Sage technologies help automate manual processes, provide customised reports and use artificial intelligence to improve accuracy.

Our solutions also support specific industry requirements. For example, a non-profit organisation will have different needs and reporting requirements to a SaaS [software-as-a-service] business. Non-profits require visibility of donor and fund management compared to a SaaS business that will be focused on revenue recognition, automatic and agile-billing models to reduce quote-to-cash processing time. When doing financial planning myself, I need lots of industry data on customer renewal or churn rates; this helps me plan better and align with our strategic objectives.

THE EFFECTS OF COVID POSE THE BIGGEST RISK TO CFOS CURRENTLY

Top business risks according to CFOs



Deloitte 2020

Q How important is cloud technology for you and the rest of your team?

A Cloud technology has become crucial. Our team can access systems online at anytime from anywhere, without the need to download software. This reduces deployment time and raises efficiency. We are less reliant on the manual preparation of data and have reduced the risk of human error. This has provided even more benefits this year, when our team could continue with business as usual working from home.

Integration with existing software to support other areas of the business is also key for us. The Sage financial-modelling system can integrate with all your live billing information and feed in data on customer churn, migrations or acquisition.

Such integration is allowing us to break financial analyses down to a deeper level. For example, if looking at costs, I can dig down into functions, sub-functions and individual cost centres, just a few of the many functions that enable our finance leaders to make better commercial decisions.

Q What are the challenges in adopting these technologies and how can mid-sized firms overcome them?

A Cloud technology improves speed, accuracy and robustness compared to spreadsheets, which can be unwieldy and prone to manual errors. However finance people can be apprehensive to make the move when they are used to working on calculators and spreadsheets everyday. They can find it challenging to get up to speed with cloud-based tools and embrace the benefits. For example, getting new technology and processes in place can be a hard process.

They need to look beyond the initial hard work of getting these systems in place. The end-benefits far outweigh the implementation and planning efforts. Having instant access to real-time analytics is powerful. It can also ensure I have the right size, highly skilled team working on value-added work and not spending too much time number crunching in Excel.

I wouldn't be able to do half the things I do in my commercial-finance function without it. Another benefit is dashboards, which have evolved so much over the past four years from very basic to providing advanced information on trends and metrics, including return on investment and revenue by product. Too many finance people still waste time crunching data with spreadsheets. In my function, I'm trying to increase process efficiency and commercial insight continuously. Technology is allowing us to reinvest time and cost savings into resources that drive commercial insight and growth.

Q What are the upcoming challenges for CFOs?

A Technology has become a lifeline for businesses, given the data they need for better decision-making. For finance leaders, this is the ideal time to identify any remaining gaps in digital capacity and assess the impact of digital transformation.

Longer term, CFOs will become more commercially focused, delivering and shaping company strategies, rather than number crunching. Digitalisation will enable that. The coronavirus pandemic is pushing many into this transformation much earlier. As a result, we are now around five years ahead of where we would have expected. So every CFO should take this opportunity to consider their digital transformation options now.

Q Do you have any final words of advice?

A Focus more on the "so what?" and commercial insights, not reporting the numbers. We are strategic advisers to the business, not just data junkies, and business decisions are made in conjunction with us.

> **We are strategic advisers to the business, not just data junkies, and business decisions are made in conjunction with us**
>
> **Monica Arora**
> Executive vice president of commercial finance, Sage

Is technology making finance roles obsolete?

The march of the machines may be unstoppable, but technology cannot yet replace the human expertise and strategic insight of finance professionals

Tim Cooper

Most traditional finance roles in medium-sized companies will become obsolete over the next five years as chief financial officers (CFOs) adopt a swathe of new technologies.

At least, that's what you could be led to believe by research from multiple sources which forecast disruptive technologies, such as cloud-based systems, robotic automation and blockchain, will redefine every finance role by 2025.

A study by Accenture predicts traditional finance roles will reduce by almost 70 per cent within five years and overall finance staff will drop by nearly 40 per cent. Meanwhile, new roles will account for half of finance jobs.

The Deloitte Crunch Time 2025 report says the function will cut staff in transactional roles such as order to cash and procure to pay. But demand will grow for business-related roles, such as business partnering, reporting and scenario planning, and specialised finance jobs, like in tax and treasury.

The move towards advanced scenario planning is happening already, accelerated by the need to adapt business models in the coronavirus pandemic.

Nicola Smith, intelligent platforms managing director, CFO and enterprise value, at Accenture UK, says the technology involved has empowered finance teams to make informed strategic decisions at pace in a way that would otherwise have been unimaginable.

Next-generation accounting systems and associated technologies, such as artificial intelligence, will also take hold more quickly now. This will liberate remaining finance professionals to take on much more strategic and creative roles.

Cost and legacy challenges

Mid-sized companies face many challenges in adopting these new technologies. Some struggle to update legacy systems or fit new technology with existing systems. Others cannot afford to switch wholesale to the cloud. But these problems are easing as cheaper, smarter technologies become available.

53%

of CFOs anticipate a decrease in revenue and/or profits of up to 25% as a result of the crisis

52%

of CFOs plan to make remote working a permanent option for roles that allow it

PwC 2020

Smith says: "The introduction of software-as-a-service has made it affordable for medium-sized companies to replace legacy systems. This step-change has improved life for CFOs. For example, they would have taken almost a month to generate liquidity reports using legacy solutions. Now they can access near real-time reporting."

Another challenge is finding the time to implement and train staff in new technologies. As one CFO put it: "Our ability to create wondrous new technologies greatly outstrips our ability to learn how to use them effectively."

Another big task is cleaning up the messy data that exists in most organisations.

77%

of financial decision makers agree that they will be unable to provide insights if they do not invest in financial management technology

Sage 2019

Pandemic push

For many mid-sized company CFOs, the fast-moving COVID-19 crisis highlighted the limitations of existing technology. For example, it called for business intelligence and analysis software that enables much greater speed, agility and efficiency compared to spreadsheet-based analysis.

Matt Weston, managing director of recruitment firm Robert Half UK, says: "Whether to maximise efficiency, support cost management or uncover business insights, technology has embedded into many businesses during the pandemic."

Despite the massive pressures they still face, nearly half of UK CFOs plan to prioritise finance automation over the rest of 2020, according to Robert Half research. A third also plan to harness data-driven business intelligence systems to support post-lockdown recovery strategies and adapt to shifting customer demand.

But Weston disagrees that technology is making finance roles obsolete. Though larger businesses have reduced some transactional roles, there is still strong demand in medium-sized businesses post-lockdown for financial and management accountants and risk, compliance, regulatory and fintech roles, he says.

"Demand has also increased for data analysts," Weston adds. "In mergers, analytics, risk management, tax or auditing, technology doesn't replace human expertise and strategic insights, but enhances it."

Sue Stapleford, finance director of publisher Hymns Ancient and Modern, says: "Technology produces data in a meaningful format, which allows CFOs to direct their attention where needed. But it cannot yet reproduce their enormous intuitive capacity.

"Instead, it frees professionals to use flair, imagination and experience to forecast business direction and solve future problems. Technology has helped us cope this year. But only the imagination and critical thinking of all our staff has produced solutions."

CFOs must also ensure employees and other stakeholders perform ethically in all economic conditions. But technology cannot currently reproduce a sense of moral acceptability, she says.

Exciting times

Joe Scarboro, CFO of technology firm AltViz, agrees that any function that can be automated is up for grabs, with statutory accounts a current prime candidate. "But when bookkeeping moved from physical ledgers to computers, roles didn't disappear, they simply changed," he says.

"Technology cannot easily interpret standards, model borderline accounting cases and apply complex financial rules. Nor can it replace the creativity needed for strategic thinking."

Economic crises put pressure on CFOs to forecast, model and plan all manner of scenarios, which requires more creativity given the increasing levels of uncertainty, he adds.

"The biggest danger for medium-sized companies is spending too much time searching for and testing new technologies," says Scarboro. "You need a tailored, risk-balanced approach."

The rise of digitally enabled finance teams is irresistible and these teams will help their companies outperform peers. That is why, despite the job losses expected, 78 per cent of junior staff say there has never been a more exciting time to be a finance professional, according to Accenture. CFOs need to deliver on this potential.

"

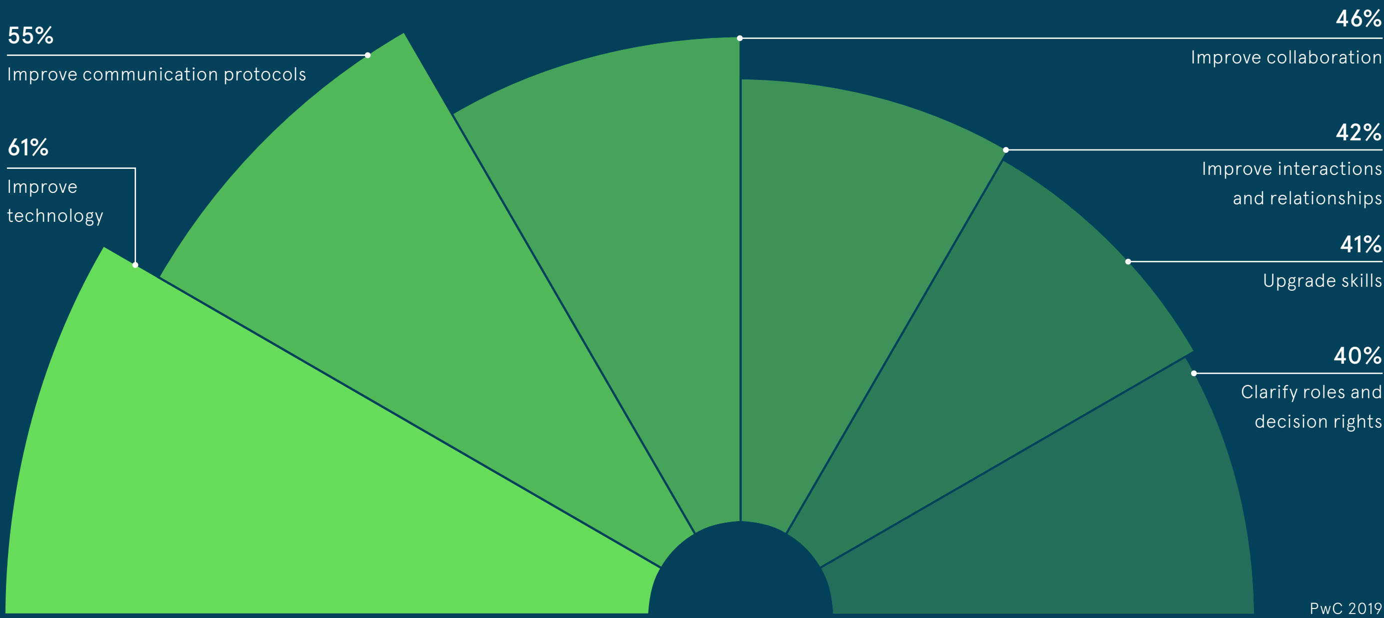
Whether to maximise efficiency, support cost management or uncover business insights, technology has embedded into many businesses during the pandemic

Unlocking success with technology

Technology promises big benefits to myriad areas of the finance function, and its adoption is ever-increasing. What are the biggest gains to be had, and which technologies are finance teams turning to in order to achieve these?

TECHNOLOGY IS THE TOP WAY TO IMPROVE EFFECTIVENESS OF THE FINANCE FUNCTION

Steps to improve finance effectiveness



PwC 2019

78% of financial decision makers agree that technology skills are essential to the future of their department

31% of financial decision makers are concerned about their lack of digital skills

Sage 2019

THE TIME SAVINGS OFFERED BY AUTOMATION CAN FREE UP FINANCE TEAMS FOR MORE STRATEGIC TASKS

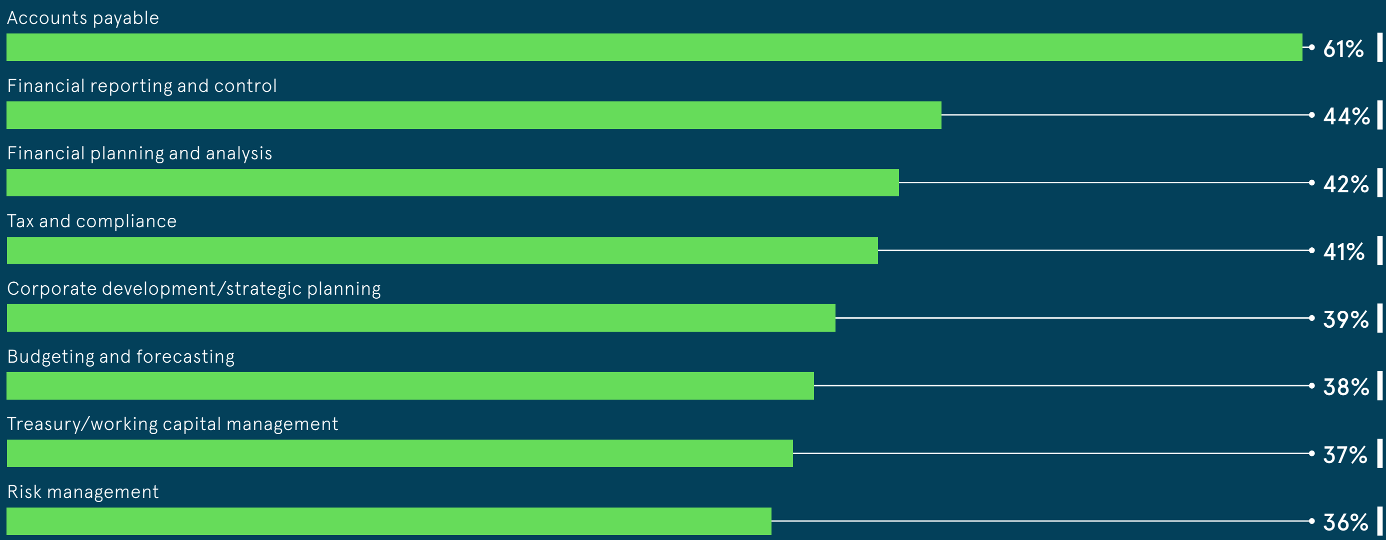
30–40% of time can be reduced with finance automation and behaviour change

PwC 2019

TECHNOLOGY IS BEING USED ACROSS A RANGE OF AREAS OF FINANCE

Areas of the finance function regularly making use of technology

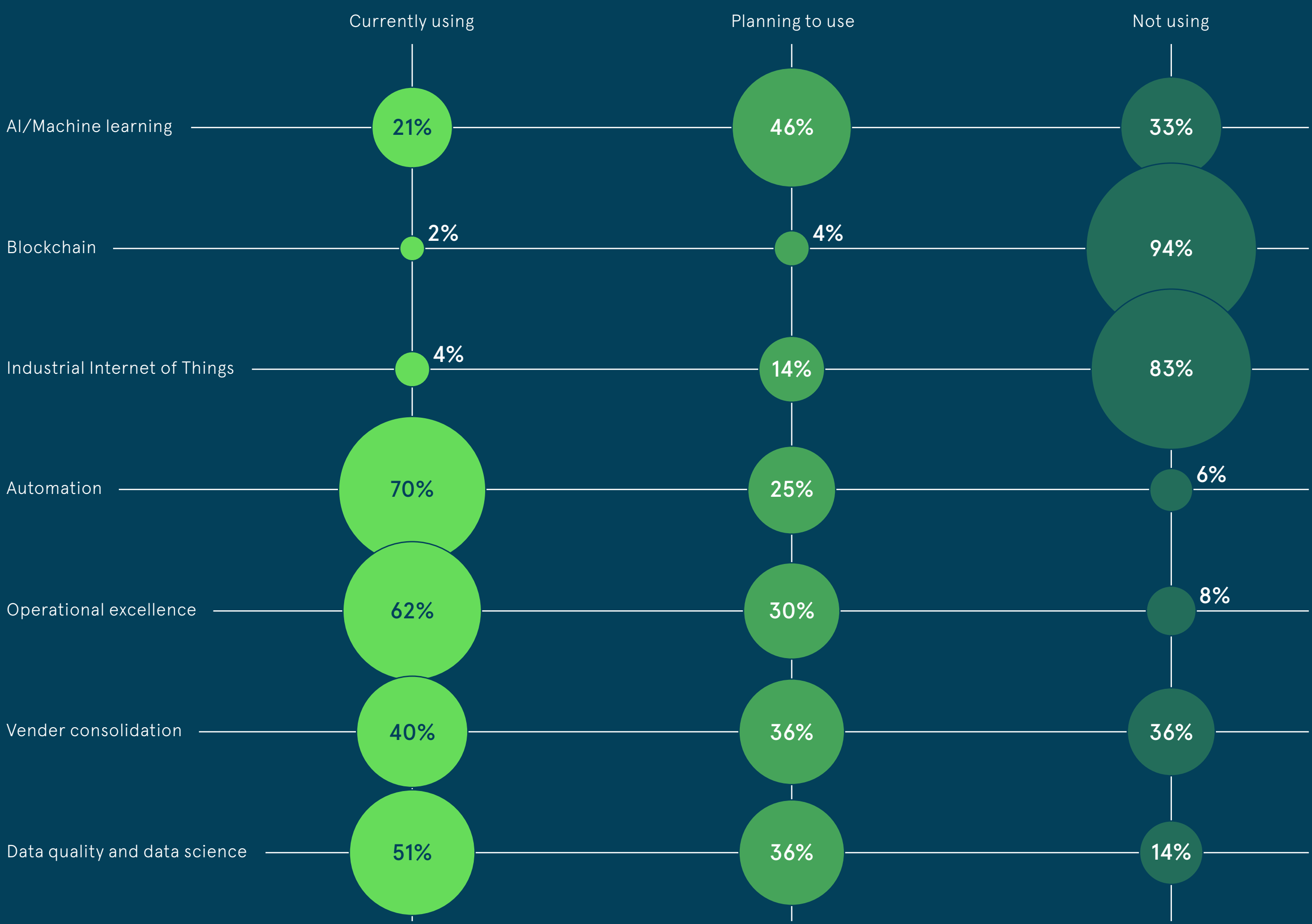
Grant Thornton 2020



AUTOMATION IS THE MOST POPULAR TECHNOLOGY, BUT BUSINESSES ARE EXPLORING A NUMBER OF OTHERS

Finance functions' use of technology

Leathwaite 2020



Five post-COVID challenges for the CFO

As credit tightens and markets transform in the post-pandemic economic downturn, it's the chief financial officer who will navigate their company back to prosperity

Charles Orton-Jones

1

Supplier credit reductions

Credit is tight. But this time it's not the banks behind the squeeze. In fact, business lending is forecast by the EY Item Club to rise by 14.4 per cent this year, the biggest increase in 13 years, owing to government support schemes. Rather, supplier credit is where the danger lies. Andy Cristin, founder of Pareto FD, a virtual finance director service for mid-sized clients, is already seeing the trend. "In terms of risks, I've not seen any banks calling in loans," says Cristin. "In fact, a couple of them have actually extended terms outside of the government support programmes. I have, however, come across suppliers reducing credit terms for one of my clients. This has obviously increased pressure on their cash flows meaning further funding had to be found elsewhere."

2

Staff working overseas

Working from home is the new normal. But what happens when staff live in Ireland, Portugal or on another continent? There are legal and financial issues for the chief financial officer (CFO) to consider. Lloyd Davey, partner at law firm Stevens & Bolton, says there is a long list of challenges: "Will the employee benefit from more favourable local employment laws or be in breach of local immigration laws? Are medical, death-in-service and other insurance policies invalidated? From a tax perspective, does it create issues of permanent establishment, tax residency or social security contributions? Is the new transfer of data in and out of the UK in keeping with the organisation's data privacy policy and General Data Protection Regulation compliant?" CFOs must be prepared to advise their businesses on the financial implications of employees working not just remotely, but worldwide.

Changing business model

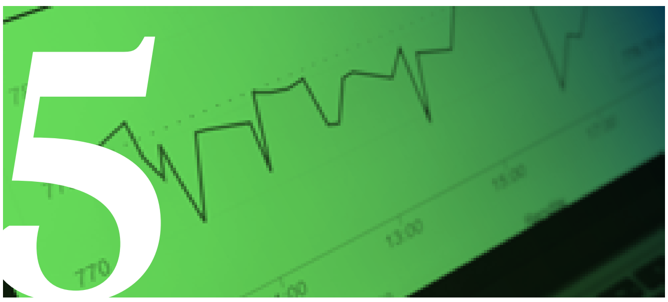
Café chain Pret A Manger is tackling the crisis with a new idea. Buy a £20-a-month subscription and drink all the coffee or smoothies you want. “Pret needs to adapt itself to the changes of customer patterns and that’s where we’ve been very focused,” says chief executive Pano Christou. With London sales down 60 per cent, the company needed the launch of a new concept to boost sales and it’s not the only company changing its model. Supermarkets are switching to home delivery, with Tesco doubling home delivery slots to 1.2 million a week. The Mandarin Oriental hotel group is offering food home deliveries from its restaurants. A role for the CFO in the post-COVID economy is to identify new business models. As Spotify proved in music, a simple tactic like billing per month, rather than by song, can trigger a revolution.

Higher costs

Social distancing equates to higher costs. Take the construction industry: official government rules separate sites into isolated working zones to prevent cross-contamination, reduce occupancy of vehicles such as cherry pickers and cut the number of people on site at any one time. Staff costs are up. Completion times are delayed. Other businesses and sectors are affected. There is also the expense of covering staff off work due to quarantining, either through localised lockdowns or precautionary test-and-trace measures with individuals required to self-isolate for two weeks. Furthermore, office redesign costs will be incurred for developments like air conditioning filtration and expanded canteen space. The Office for National Statistics reports that a quarter of all companies are already either loss-making or just breaking even; the longer-term impact on the balance sheet could be profound.

Finding and utilising new metrics

Lockdown introduced CFOs to some new economic metrics. The OpenTable restaurant report is leading the way in the hospitality industry, providing daily insight into restaurant bookings. The platform is used by 60,000 restaurants to handle bookings and its insights include reservation volumes by city and country. The UK went from normal on March 8 to -24 per cent four days later. By March 23 there were no bookings at all. Now OpenTable is charting the recovery: the peak of Eat Out To Help Out saw bookings 106 per cent higher on August 25 than the same day the year before. This data is vital for CFOs to map behavioural change. Another platform utilising interesting new metrics is the Moovit Public Transport Index. The transport app publishes movement data and showed that public transport usage in the South East was down 78.1 per cent in early-May at the height of lockdown. There’s also the Netflix Indicator, which shows people watch more TV when underoccupied or stressed. Viewing time of streaming services rose 61 per cent during national lockdown, according to Nielsen. CFOs may need to research unorthodox data sources to gain insight into the trajectory of the market. The New York Times put it succinctly: “Economic data is about to get weird.”



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