

FOCUS

Key issues for Financial Directors in 2013



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CLARITY OF VISION

In these still uncertain times, finance directors need to be able to see and understand exactly what's going on with their costs and cash flows – but there is no shortage of obstacles in the way.

Life hasn't been easy for anyone in business over the last few years and there is no sign of things lightening up at all. But whether businesses are struggling to survive in this environment or actually finding opportunities to grow and thrive, the finance director and other senior financial managers have some critical issues that just don't go away.

First and foremost is the need to manage the cash. A business can make losses and still carry on, but if it runs out of cash, it's dead. Even growing businesses can go cash-negative. But in trying to manage group liquidity, there are a number of hurdles that FDs need to grapple with and which all business managers need to be aware of. It's essential to deal with these 'pain points' if businesses are to be able to see and make the right decisions.

FORWARD VISIBILITY

Finance directors don't like nasty surprises. They don't even like nice surprises. If an FD seems less than delighted to be handed a big fat contract by a proud salesperson, that's probably because he's just committed the company to some expensive financing arrangements that might not have been wholly necessary had the FD known such a deal was likely to happen.

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Forecasting is a mixture of good systems and 'dark art', but fundamental to making accurate forecasts is good communication between the finance function and the rest of the business.

As Will Peters, a large international company finance director, explains, “It's absolutely critical for the finance director and for the finance function as a whole to become a partner with the rest of the business and spend time with them, understanding what the issues are and helping them understand all the cash flow implications.”

TRANSPARENCY

Many businesses have struggled simply because their information isn't good enough, with systems failing to provide a clear 'big picture' while also making it difficult to drill down into the detail to understand what's happening at grass roots level.

Sometimes this arises from having too many conflicting systems, typically with business units using their own spreadsheets that don't match up with the information that finance has. Peters has seen this before: “We have put a stop to that,” he says. “Now there is only one version of the truth which comes out from one system so everyone is looking at the same numbers and analysing them, rather than arguing as to which is the right number.”

Introducing new, standardised systems isn't easy, and getting buy-in from business managers can be difficult. Peters says that systems can't simply be imposed without explaining why: “People have to understand that there is a problem in the first place before you offer them a solution. When they appreciate the problem the solution will be very easy to sell.”

USEFUL INFORMATION

Most finance directors will admit that they're guilty of generating too many numbers. It's easy to do: numbers are their livelihood. But increasingly, businesses are looking to streamline the amount of information, providing only what's genuinely useful. "We have started using dashboards with our important key performance indicators and ratios," says Peters. "We analyse all that information to understand what we should be doing better."

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Not all of these indicators are financial: in our company, they look, for example, at win-lose ratios to get a clearer picture of where and why they win tenders, or don't. "Finance needs to help business units by producing information in a way that they can easily understand," says Peters. "That doesn't mean just producing lots of numbers and budget variances.

And it may mean graphically presenting information. Unless the rest of the business understands the information they're given, it's not going to make much of a difference."

In many businesses, but perhaps especially in service industries, it's often the case that the biggest client may not be the most profitable client, once all the associated costs are properly allocated. Companies may offer overly-generous discounts, or provide additional support services that haven't been costed properly in order to keep a big-revenue client. They have to understand the true profitability of the client. "

"Sometimes companies keep a prestige client on their books, but they may not be making any money out of them," Peters says. "That has to be a conscious decision and not one made by default."



EXAMINING T&E THROUGH THIS LENS

COMPLIANCE

From financial reporting to tax to new anti-bribery and corruption rules, the compliance burden never gets any lighter. Full accountability to regulators of every hue is absolutely essential but the detail and complexity of rulebooks grows inexorably. So does the zeal of those regulators. “Tax authorities are on a mission to collect as much money as possible from businesses,” Peters says. “Historically, if you made a slight error with your VAT return HMRC used to just ignore it. Now they will come after you.”

Finance directors who can deal with all these impediments to sound financial management have the best chance of being able to understand what needs to be done and to work with the rest of the business, facing head-on the economic challenges.

“Although you’re in a downturn it doesn’t mean that you cannot grow,” Peters says, “as long as you have the right information.”

Businesses need to understand how all these critical issues can be addressed right across the business – in sales, marketing, operations, procurement, distribution, and so on. One important component that spans almost the entire enterprise is travel and expense management, which can in some businesses be a significant item. Globally, corporate T&E amounts to hundreds of billions of dollars.

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And yet finance directors often have little forward visibility about this cost: they may know almost nothing until after employees have submitted expense claims, making it impossible to control or to plan cash requirements.

It's also common for FDs to have restricted visibility as to how T&E is split across the various categories – flights, hotels, car rental, accommodation, and so on – which makes it more difficult to make decisions that could result in greater control and cost-savings. And businesses need to be able to easily tie back all these costs to the right client to ensure that the right level of service is being offered for a given value of client revenue.

Furthermore, T&E can be riddled with tax complications, especially when operating in more than one jurisdiction, and can have significant potential for creating uncertainty over compliance with anti-corruption legislation.

Sensibly-managed, T&E can play an important role in generating revenue, growing the business, and enhancing operations. As finance directors and other senior financial managers look to address their key issues – achieving forward visibility, exercising control, generating useful information and ensuring compliance – T&E must be examined through that lens.

Written by Andrew Sawers.

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