



## Customer-driven finance

*Driving sales performance and customer satisfaction through lean finance*

*By Alexander Arcache, Peter Margetis and Rob Theunissen*

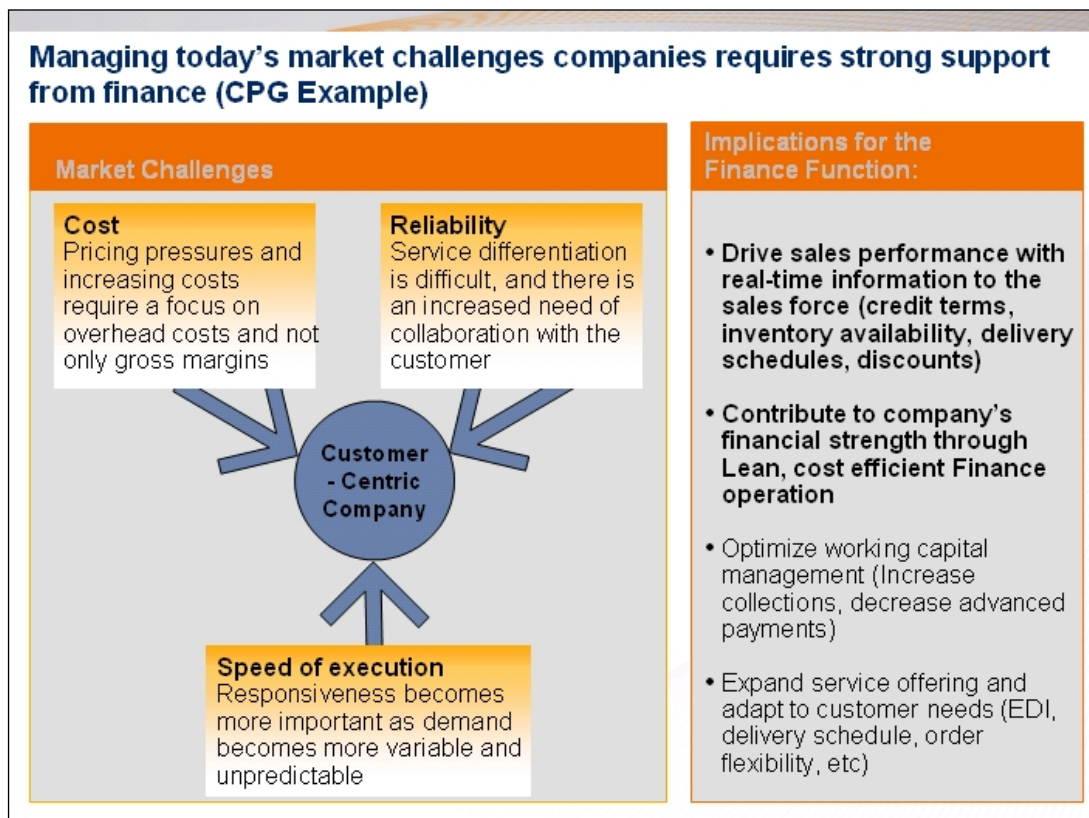
Companies in many industries face tough challenges in today's fast-changing world. Decreasing margins, extended supply chains, and short product lifecycles are just some of the hurdles standing in their way.

Decreased margins caused both by greater customer price pressure and higher costs are forcing a new focus on overhead costs. At the same time, as service differentiation becomes more important, higher service-level is required, pushing companies to find ways to collaborate more closely with their customers. Increasingly fluctuating and varying consumer demand means that not just the level of service, but also the speed of response is of utmost importance.

In addition to introducing product and service innovations, the support of a robust finance function is essential to successfully meet the challenges posed by this demanding market environment. The place of the finance function has come under much scrutiny from within companies and has evolved from its traditional supporting role to a more strategic one. This has led to an increased expectation from top management for the finance function to contribute to operational decision-making (Exhibit 1).

Indeed, the finance function has the power to help organizations operate more efficiently to reduce cost. A well-oiled finance function can help companies expand their service offering and adapt better to customer needs. It can drive sales performance by bringing transparency of inventory availability, delivery schedules, credit terms and discounts to the sales force. Finance can contribute to companies' financial strength by being cost-efficient and optimize working capital management by increasing collections and decreasing advanced payments.

Exhibit 1



**Going lean**

Key finance-driven processes: order to cash, procure-to-pay, monthly or quarterly closing, and forecasting – impact customers, sales, corporate efficiency (the level of internal resources used to support processes) and corporate effectiveness (the quality of process output). In our experience, ‘lean’ techniques are unmatched in their power to help organizations meet all finance process objectives, increasing the quality of the customer experience and hence improving the overall competitiveness the company.

Lean techniques have their roots in the automotive industry and have rapidly multiplied in their use and application. The lean vision aims for zero waste by fighting three common challenges: rigidity, waste and variability. The end objective is for activities to be value added and to produce the quality demanded by the customer in the shortest possible time.

The lean approach has, meanwhile, found its way across diverse industries such as banking, telecommunications, pharmaceuticals, to name a few. Lean processes have also penetrated almost every corporate division, from product development to manufacturing to marketing and sales. Companies applying lean turn their focus around from a product-centric to a customer-centric organization and benefit from improvements in quality and efficiency of 40 to 70 percent.



Now, lean is beginning to make its mark in the finance function too. By introducing a comprehensive lean program across all finance processes, one leading global CPG company managed to reduce error rates in sales orders from 10% to just under 1%. Getting the full order correctly the first time reduced rework and optimized communication between customers, salespeople, and finance. Operational changes also resulted in decreased waiting times for monthly reports of 50% and increased sales productivity of more than 10%.

This kind of impact is not achieved overnight, however. In this company, the lean transformation team conducted a thorough and detailed analysis of the order-to-cash process and made long-term improvements, with special attention paid to error generation and order handling. They reduced reconciliation errors by introducing a simplified and improved document handling process. Clerical, inventory related, and promotional errors were also reduced to under 1%. Using checks and newly established KPIs managers were able to identify process issues immediately and directly at the source, before they had a chance to cascade down the line and resurface days, weeks or months later.

The positive effects of a comprehensive lean approach go beyond the customer order process. Such an approach can increase administrative efficiency and allow more time for procurement to focus on large-ticket purchases. Lean can streamline the entire procure-to-pay process, simplifying reconciliation, approval, and payment processes. Focus and simplification lead to an efficiency increase of 30-50% for routine purchases at a client.

By focusing on better communication and interaction between employees and by increasing data and information collection before end of period, the speed of reporting, so critical for monthly or quarterly closing, can also be reduced by half (e.g. to three days versus six). Such a change requires no significant automation. Reduced errors also have positive impact on business planning and forecasting. A more proactive structured planning process can ensure high precision rates in business forecasting. It is these gains that ultimately lead to a true competitive advantage for companies introducing a comprehensive lean process.

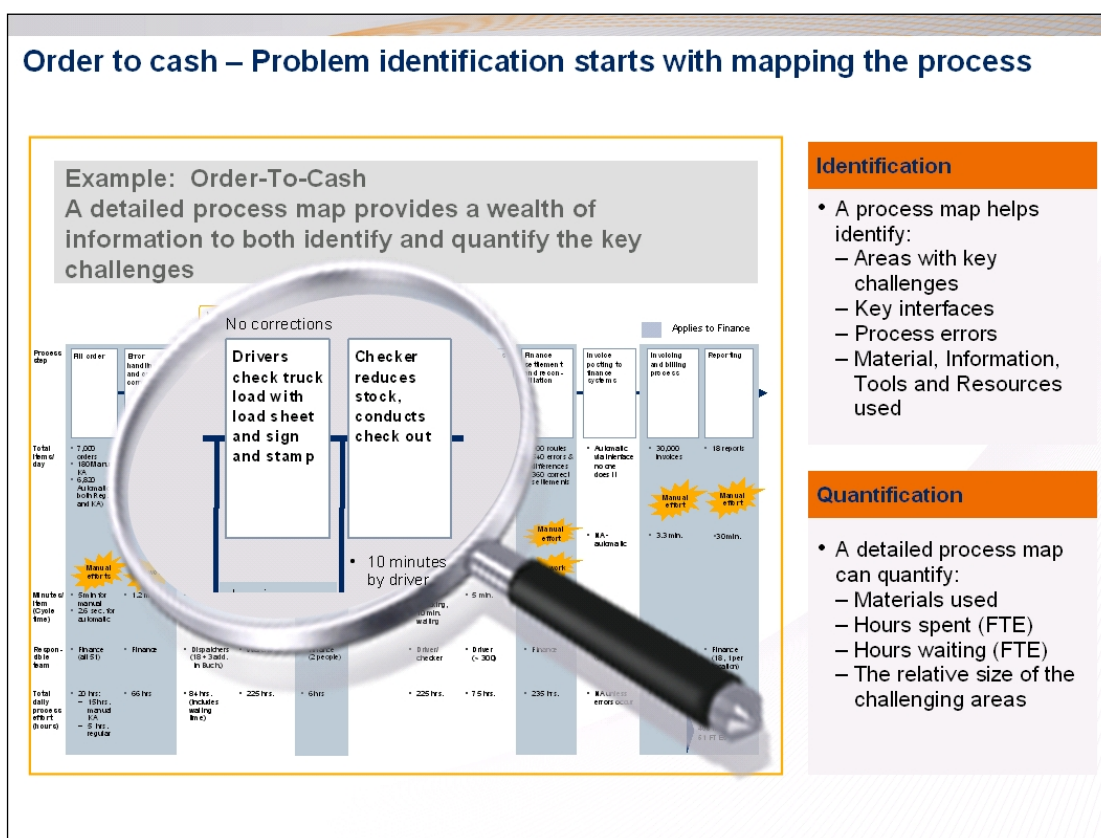
### **Order-to-cash**

Going lean is never an isolated approach by a single function like finance. The order-to-cash process, running from order entry to collections, touches a number of different departments: sales, finance, warehouse and logistics. Although the process must be seamless to the customer, the cross-functional intensity and numerous interfaces create the potential for a large number of improvements across all points in the process.

In order to identify process improvements, it's important to get down to the right level of detail. Creating a detailed process map, a tool often used in lean manufacturing, can help companies identify the key challenges and errors in the order-to-cash process.

Process maps help companies understand customers and process objectives (Exhibit 2). They increase transparency by highlighting the key interfaces and inventorying the material, information, tools and resources used in a process. The maps also quantify hours spent by full time employees – and whether those hours were spent working productively or waiting idly.

## Exhibit 2



Process maps provide a structured framework to help prioritize improvement activities. Often, employees are quick to point out areas of frustration as “must fix” improvement areas, yet these may only provide small benefits. Since a process map not only identifies but also quantifies the resources required for each process step, it can be easily used to prioritize key areas, and identify areas requiring further analysis and investigation. For example, although one process for document filing had been clearly outlined for nearly a decade, in practice it was not being followed. 30% of documents were filed improperly. This created a tremendous administrative burden that included a focus on fire-fighting rather than “normal activities”. This additional time was clearly highlighted on the process map. The “fix” was clear in that just by enforcing existing process rules, the need for overtime and temporary personnel was drastically reduced.



However, just defining a new process is rarely enough. It needs to be accompanied by the right operational KPIs to track performance along the aspired goal and by mechanisms to immediately spot deviations from the target process. Such self-enforcing mechanisms can be either automated or manual checks. They should help maintain a robust and sustainable lean process and support the employees' mental change towards a substantial "lean" mindset.

### **Procure-to-pay**

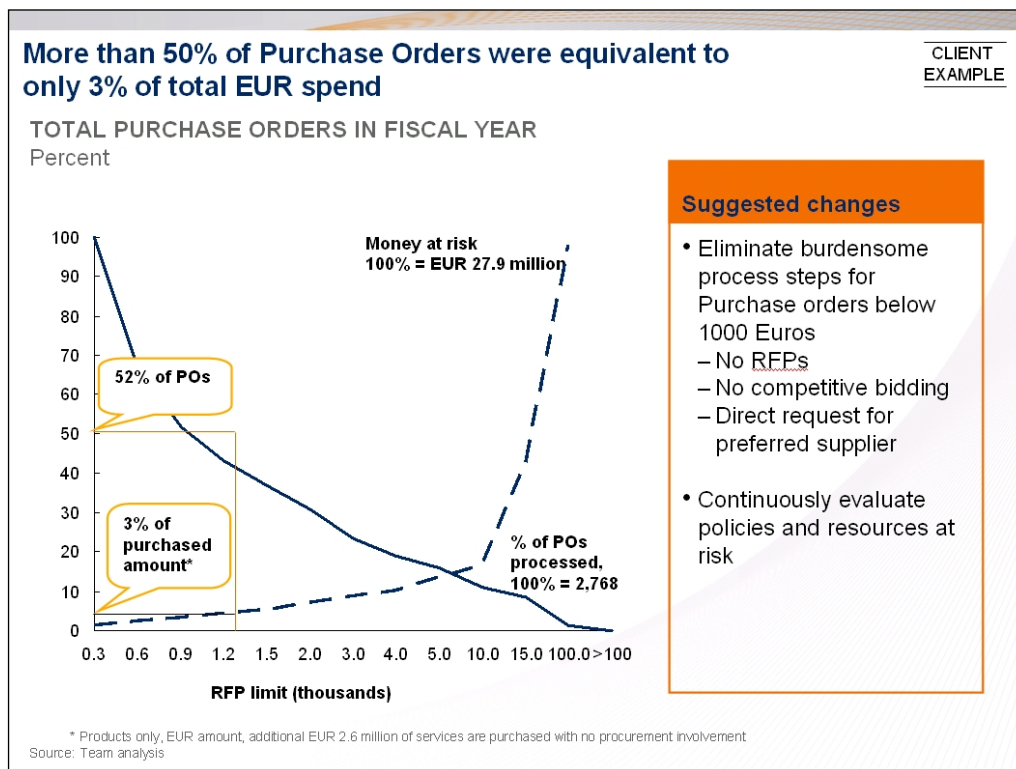
One of the most prominent sources of improvement in another company was in the purchase order process. More than 50% of total time was spent negotiating on purchases worth €1200 or less; those amounted to less than 3% of total revenues (Exhibit 3). The other 50% was spent on the remaining orders, which amount to 97% of the volume.

The company then worked to eliminate unnecessary steps such as RFPs and competitive bidding for purchase orders amounting to less than €1000. To maintain a long-term improvement perspective, the company ensured that a risk / benefit assessment was conducted on a periodic basis.

Furthermore, many errors, delays, and inefficiencies such as duplications were identified in the invoice receipt and payment process. Once these bottlenecks were marked and dealt with, one company was able to reduce the average time of invoice handling from 13 days to five, while decreasing error rates by 50% through more vigorous training and performance management. Continuous enforcement of policies and performance metrics were critical to long-term success.

As in order-to-cash, much of the waste was found in manual processing, non-standardized processes for documents, and errors in processing. With those errors reduced or eliminated, the CPG company enjoyed increased administrative efficiency as well as reduced invoice handling and payment processing costs.

### Exhibit 3



### Monthly / Quarterly closing

The monthly, quarterly, and annual closing process is always plagued by high error rates, considerable overtime, and extremely high levels of stress and frustration on the side of finance employees. By carefully using lean tools to identify a detailed step-by-step process, the closing process can be conducted in less time, while also being error and frustration free. The key success factors are an increase in preparation and coordination, while removing bottlenecks where possible. In addition, it is important to develop a “target process” to guide the final closing process hour by hour. The advantage of the target closing process is that it clarifies process ownership and contributions across multiple stakeholders outside of finance. The tool also defines the scope of customer service, while focusing on interfaces and governance.

In addition to increased preparation and coordination, one company also implemented automated checks and new Excel tools to help reduce errors. To maintain this level of performance on a continuous basis, they also monitored submission quality and deadlines by using an internal KPI scorecard.

The overall results were faster reporting, which led to faster decision making and more time for management to react. Unnecessary reporting was reduced by 30% and clients received their monthly reports in three days instead of six. More importantly, more time was dedicated to business planning and forecasting, making the overall business more focused and competitive.



## Forecasting

Many of the techniques used in the monthly and quarterly closing processes can also be applied in forecasting. However, the main differences between the two is the intensity in cross-functional cooperation required for forecasting. Forecasting requires members from all other functions to provide expected values from capex to net sales revenues to COGS and OPEX. Inherently, accuracy, speed, and re-work commonly plague this process.

In forecasting, many companies describe a low forecasting accuracy and low skill levels in explaining even large deviations from actual as the main pain points. In consequence, the company's ability to spot business developments rapidly and take (counter) actions are very limited. The lean approach in this process focuses on achieving better decision making.

In an example, a company typically spent more than 50% of budget capex in the last quarter of the year, while planning an even spread over the year. One of the key reasons for this was that there was no structured capex spend plan extending one year. Too many projects were planned in parallel and experiences on preparation time needed were not included. To make things worse capex panning was mostly driven by finance instead of the cost center managers responsible for the capex. Furthermore COGS and net sales revenue planning were also inaccurate, leading to a bad forecast on for many reasons.

The lean approach helped to introduce a much more accurate and reliable capex forecasting by changing responsibilities, introducing supporting planning tools and incentivizing mechanisms. As a result, there was not only a better forecasting accuracy but also a better basis for explaining deviations and spotting trends in the business.

With the support of a strong lean finance function, consumer packaged goods companies can better cope with the myriad of challenges – reliability, mounting margin pressures, speed of execution. A lean program will always start by asking how the company can create more value to the customer. All measures developed in the program should lead to a clear and measurable impact to the business. Therefore lean is not about making increments process optimization.

Lean techniques eliminate sources of hidden waste to reduce cost, maximize speed and improve service quality for a better customer experience. Lean tools become most powerful when they become deeply embedded in the mindset of the organization. A continuously improving process not only ensure fast decision making, flexibility and increased performance, but also guarantees a competitive advantage that customers will notice. A lean finance function will ensures that customers come first – and in today's consumer-dominated world, that often proves to be the most competitive position of all ■



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