NetSuite Brainyard

https://www.netsuite.com/portal/business-benchmark-brainyard/industries/articles/cfo-central/finance-automation.shtml

Project $50M: How Finance Automation Drives Growth

By Megan O'Brien, Brainyard Finance & Business Editor
August 9, 2021

In short:

- At about $10 million in annual revenue — maybe before — legacy finance and accounting systems no longer meet the needs of growing businesses.
- To fuel the next stage of growth, companies will need new systems that automate core financial tasks. One process key to success: Designate KPIs for the project's success before you dig in.
- In this chapter of the Project $50 Million series, we'll cover best practices around finance automation, including where to begin, designating KPIs to measure the improvement in finance deliverables and designing for scale.

Perhaps you've seen it: a frantic energy in your finance team's eyes as they rush to keep up with the rapidly-growing needs of your business. And who can blame them? At some point, bookkeeping becomes extremely difficult for one person, or even a small team, using the processes and systems that worked just a year or two ago. And there's no way to deliver the deep financial analysis senior management needs to keep growing steadily.

In other words, outmoded finance and accounting processes and systems are a drag on success. And it's not just that operations have become too complex, though that's part of it. It's that the tools the team uses can't abstract that complexity or provide the functionality and insights needed to support sustained growth.

In general, experts see companies hit that wall at around $10 million in annual revenue, but it could happen earlier or later based on the business. The solution is not "throw more accountants at the problem." Instead, it's to automate core finance tasks.

In this installment of the Project $50 Million series, we look at the "why" behind automating at this stage, best practices and the future of finance automation.

Our Source
For this article, we spoke with:

David Mustin, VP of strategic consulting at Marcum Technology

Marcum Technology is a division of Marcum LLP, a national accounting and advisory services firm headquartered in New York City. Marcum works with entrepreneurial and mid-market businesses and provides market insights in a wide range of industries.

The Tipping Point

"There are a bunch of entry-level [financial management] systems out there that just don't scale," said David Mustin, VP of strategic consulting at Marcum Technology. "They don't give the owners and management proper visibility into the business. They don't allow them to see in real time and make fast, informed decisions about purchasing goods or making sure that products are getting out to clients on a timely basis."

"There are a bunch of entry-level [financial management] systems out there that just don't scale."

The $10 million to $15 million mark is when Mustin sees many businesses consider hiring controllers, who immediately look for deeper insights to more effectively run the business, further necessitating the systems upgrade. And they're not alone.

"It's an issue with not just the finance organization but across the board," said Mustin. "These businesses that grow beyond $10 million are becoming far more sophisticated, and the owners and management are understanding that they can no longer guide each one of the staff individually. Instead, they've got to put policies and systems in place to enable that growth to $50 million."

Automation creates scale, improves efficiency and delivers more timely information. There also needs to be more trust and delegation of authority, which can be tough for some founders. Fortunately, automated systems also bring checks and balances and can generate a wide range of reports on demand.

Most companies start down the automation path with the finance process, according to Mustin. Whether that can happen with the same finance team depends.

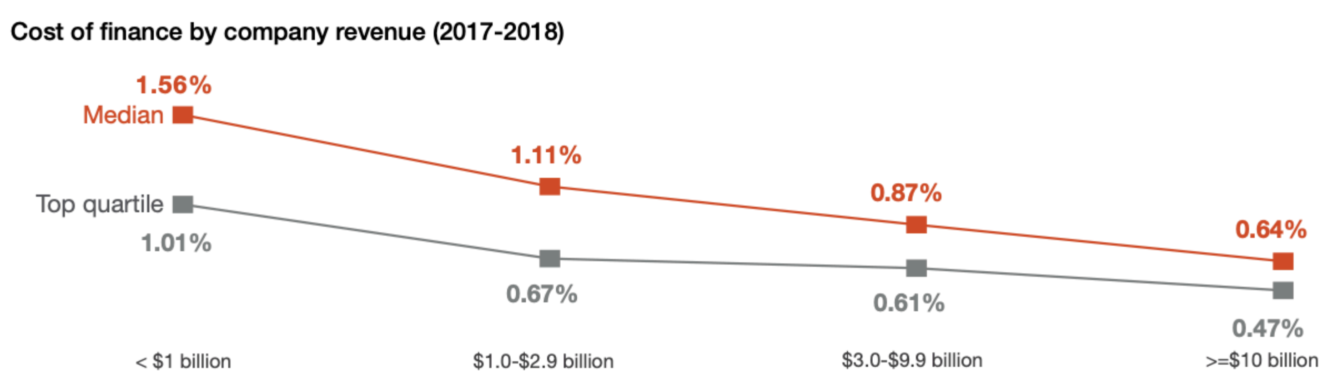
Hiring Versus Automation: Which Is the Better Choice?

As a company brings on a controller or CFO, it might be tempted to also hire more staff. After all, technology adoption can be expensive, complicated and time-consuming. Why not simply bring on new talent to help crunch the numbers?

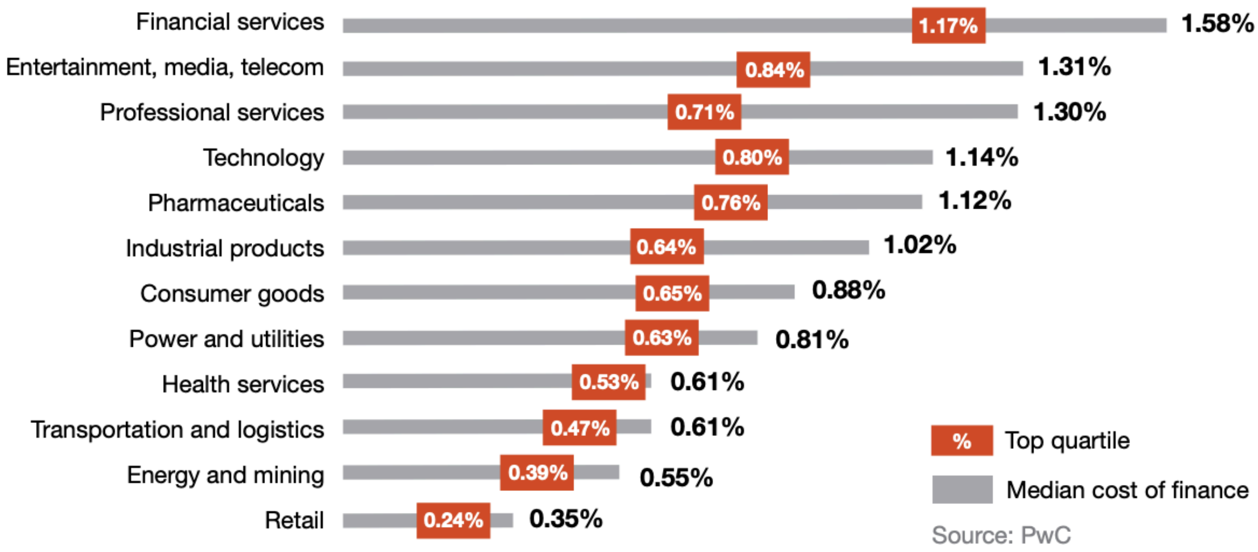
It’s a temptation to avoid, because companies cannot hire their way out of this growth pain point. Research shows that, in addition to the high risk exposure from error-prone, manual processes, businesses without automation tend to have significantly higher costs *and* lower performance.

A 2019 benchmarking report by PwC found that the top quartile of companies, those with $10 billion or more in revenue, spent significantly less on the finance function — an average 0.47% of revenue versus the median 0.64%. Further, PwC estimated that finance automation and behavior change could reduce the hours needed to execute finance tasks by 30% to 40%.

The report also found that, once automation is implemented, 75% of the time spent on finance functions is devoted to data analysis and insights, not manual processing.



Analysis finds that the larger an enterprise is, the less it spends on finance as a percentage of company revenue.
(Image credit: PwC)



The cost of finance also varies by industry. Financial services firms, for example, tend to spend more on the function due in part to heavy regulation.

In further trends data, The Hackett Group released a study in 2020 that found top-performing finance departments were more likely to have automation solutions and had:

- 36% lower costs overall as a percentage of corporate revenue;
- 45% fewer full-time-equivalent finance staff per $1 billion of revenue, for 36% lower labor costs; and
- 59% lower transaction-processing costs as a proportion of revenue.

Long story short: A big finance staff does not equate to a highly efficient finance function — in fact, it seems to have the opposite effect. While the PwC and Hackett analyses are of large companies, the logic remains the same at $10 million. The combination of a lean, talented team and the right tools drives finance excellence.

5 Best Practices for Finance Automation

Mustin confirms that, in his experience, finance automation correlates to lower costs and better performance. That in conjunction with the rising cost of talent and an ongoing skills shortage may make the cost of automation solutions an easier pill — or bill, if you will — to swallow.

Here's how to get started.

1. Begin With the 'Big 3' Functions

Mustin advises automating first the areas that really anchor the business: accounts payable (AP), accounts receivable (AR) and the general ledger (GL).

"Start with the basics, and get control over those," he said. "We have a lot of conversations with clients about these three areas: 'How do we get better information out of my finance systems? How do I know what cash I have on hand? Have I paid vendors on a timely basis? Do I have enough materials on hand to keep production flowing?'"

You can get those answers with a few clicks, or with a few hours (or days) of an accountant's time.

Accounts payable

Teams often find themselves stuck on manual, repetitive AP tasks like data entry, writing checks and ensuring purchase orders match invoices and items delivered. As smaller organizations grow to midsize, manual processes become much more expensive, time-consuming and prone to fraud and errors. Automation is the fix.

Top AP Processes to Automate

Invoice receipt	Electronic invoice submittal eliminates the need to scan invoices and manually work through various formats and mediums. From there, tedious sorting and categorization activities can be automated.

Data entry	Manual data entry is eliminated with automation technologies like optical character recognition (OCR) and robotic process automation (RPA).
Approvals	An automated AP workflow routes each invoice to the relevant parties, eliminating bottlenecks.
Matching and verification	Automating matching and verification processing quickly identifies inconsistencies in total cost of goods, amount of payment, due dates and price-per-item.
Coding and classification	In the process of classifying payables before posting, businesses need to add GL codes based on different classifications, like vendor, amount or invoice category. Workflow automation can auto-code invoices to the appropriate account.

Tip: Use your newfound AP automation capabilities to take advantage of early-payment discounts from vendors. In PayStream Advisors' 2017 AP & Working Capital Report, 31% of respondents said manual routing of invoices for payment and approval stood in the way of realizing these savings. AP automation can get you every available discount dollar.

Accounts receivable

Slow AR processes directly impact a company's profitability and ability to scale with confidence in their cash flow. Automation systems help the business get paid faster, with less effort and fewer errors.

Top AR Processes to Automate

Invoice creation and delivery	E-invoices are automatically created and delivered electronically on set dates.

Reminders	Automatically send invoice-specific payment reminders and follow-up communications.
Customer statements	Provide customers with a holistic view of their outstanding invoices by automating customer statement processing.
Matching and verification	Match invoices, credits and payments with quotes and sales orders to ensure the correct amounts are being billed.

General ledger

With the general ledger serving as the central repository for all financial transactions, it stands to reason that, as a company scales, maintaining a well-kept and up-to-date ledger becomes increasingly complex. Without timely and accurate information in the ledger, however, all other accounting processes and their outcomes are suspect. With accurate information, the ledger provides real-time insight into financial results, better compliance and a faster close process.

Top GL Processes to Automate

Financial processing	Recurring and allocation journals can be automated to expedite processing. Additionally, some automation solutions will convert and load raw data from external systems or upload mass journal entries via spreadsheets and other formats to consolidate information quickly.
GL reconciliation	The automated review imports data from all applicable sources. The system then compares account balances and identifies discrepancies that accountants need to investigate, saving them from having to verify every balance.

The next steps in finance automation come on an industry-to-industry and business-to-business basis.

“There are nuances,” said Mustin. “Once we get through the basics of the general ledger, accounts payable and accounts receivable — which are really important — we start looking on an individual-company basis to understand what their key priorities are.”

Still, there’s a universal desire for insights.

2. Prioritize Dashboard Capabilities

Companies eyeing $50 million and beyond tend to prioritize automation solutions that provide robust financial dashboards, reporting and analytics. In Mustin’s experience, four features are critical at this stage of growth:

Visualization

“I can quickly get a sense of something by combing through several complex Excel sheets,” said no one ever.

According to Mustin, around the $10 million point, leaders begin to realize that the business is getting too large and complicated to easily understand its financial position through a typical spreadsheet report. Instead, decision-makers need visual representations, like bar charts and pie graphs. With a dashboard, information is distilled into an easily-digestible visual format that still manages to give a birds-eye view to facilitate quick, yet informed, decisions.

Real-time information

The ability to make well-informed decisions, quickly address operational issues and act on short-term market changes are among the essential benefits of real-time information for companies gearing up for that next stage of growth.

“One of the most critical things business owners and managers are asking for right now are dashboards that show real-time information,” said Mustin. “Long reports that look back at the last 30/60/90 days are very cumbersome, and they’re quite often outdated as soon as they’re printed.”

Specificity

While visual dashboards earn points for at-a-glance summaries of numbers, their ability to facilitate a deeper dive into data is just as important.

“The [essential] thing that is built into the dashboards for companies at this stage is the ability to drill into it and understand the underlying activities,” said Mustin. “Being able to see what is driving those numbers is crucial.”

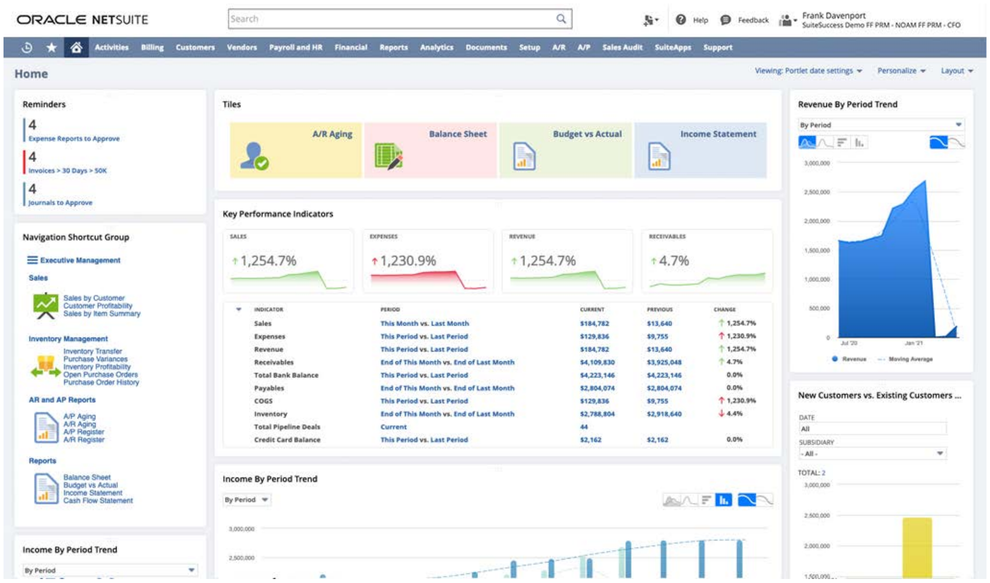
Instead of hunting and pecking for data from various sources to understand their positions, companies can get deep information simply by selecting the desired variable or object in a dashboard.

Tailorability

As business leaders delegate day-to-day decision-making to departmental managers, you’ll need to arm them with the exact mix of data they need to succeed. So, look for dashboards providing pre-made transactional, departmental and executive views plus the ability to tailor reports to individual people and roles within the organization.

“So the owner, the controller or CFO, operational leads and sales teams can all see different viewpoints,” said Mustin. Now, teams can be proactive and make quicker, data-based decisions using information pertinent to them.

“Historically, reports have been a look back,” said Mustin. “They told you what happened, but they didn’t help you figure out what’s coming next. And so the shift from a report to a dashboard is just a huge transformation.”



A user customized dashboard for a CFO might display data on sales, expenses and revenue.

3. Know Where You're Going

The new system has been implemented, on time and on budget. But the business is no better off.

Often, this happens because the company has fallen into a common trap: not determining desired business results upfront.

"It's really important to understand what your business goals and objectives are for *why* you're doing a [finance automation] project," said Mustin. "What are the KPIs to really drive your business forward? What are the KPIs that you'll want to use to measure and track business success?"

He works with clients to establish clear measures that say, "Here's how we want our business to perform after the implementation." And he establishes those metrics *before* starting the work.

"We find that if you don't establish the baseline of performance today, and establish that baseline going into the implementation, you really don't know if your business is successful coming out of the implementation," he said.

"We find that if you don't establish the baseline of performance today, and establish that baseline going into the implementation, you really don't know if your business is successful coming out of the implementation."

Measures like profitability and margin are common KPIs. And, because you’ve automated AR, AP and GL functions, you should see lower days sales outstanding; monthly and quarterly closes should happen much more quickly; and analytics should be improving. However, from there, success metrics vary based on industry and the specific company. For instance, a product-based manufacturer or distribution business might prioritize metrics around quality, throughput and on-time deliveries. For a client service business, the focus is often on customer satisfaction and renewals.

“What we really want to understand is what’s most important to that executive team,” said Mustin. “Different organizations really value different metrics — their major drivers of revenue, profitability or quality of customer service.”

4. Put Growth Plans Front and Center

“We want to pick systems that can work for our clients for what can be 10 years of work,” said Mustin. “A system that can grow with you is really important. That doesn’t mean they’re going to go to an extremely expensive system — there’s a lot of really good midrange systems. But those systems are going to have to meet their needs for an extended period of time.”

You’re going to invest in converting data, configuring a system and training staff, so look for a system that’s flexible, expandable and customizable.

“[Companies] don’t have to adopt every component a vendor offers — they can install certain finance components and grow,” he said. “More robust capabilities go a long way.”

In summary: Start small, but think big.

5. Treat a New System *Like a New System*

It can be tempting to “lift and shift” components, practices and processes from old tools into a new system. Whether the driver is a comforting sense of familiarity or a desire to avoid a complete overhaul, don’t follow it.

“The mistake that people make is, they try to duplicate their old system in their new system,” said Mustin. “It’s really important to... look for opportunities to transform and reengineer those processes.

Understanding best practices and bringing insight as to how you can make processes better is really important."

Mustin cited a client at which the previous IT manager had attempted to use custom code to duplicate the old system and process structure in the new; the result was a disaster. Remember, big providers of automation systems base their processes on best practices gleaned from thousands of customers. Sure, you may need some customization. But when it comes to common tasks, be open to rethinking your processes and training employees to take best advantage of the system you just invested in.

Be like Elsa from "Frozen," and let it go. It may be hard at first, but new, improved processes will set the stage for growth.

Finance Automation Going Forward

A recent survey by Gartner on CFO digitalization showed that both CFOs and controllers expect to spend significantly more time, budget and effort on automation technologies through 2021, and demand reflects that.

"I expected it to be cost-cutting throughout 2020, but 2020 was a really good year for finance automation," said Mustin. "There were a lot of organizations that had a very strong year in 2020, and what they've chosen to do is upgrade or put in new systems. We have seen very strong demand for new systems ... that has continued into 2021."

With organizations keen to identify areas for strategic investment, finance automation is often part of the spend — albeit at times inadvertently.

"We have one client that spent [about $15 million] in production equipment and then realized they needed to upgrade their finance systems in concert with that," said Mustin. "We see these organizations who are bursting at their operational seams, and they find they need to upgrade their finance systems to get better insights and better product or service flow."

Mustin doesn't see demand for finance automation ebbing anytime soon, because complexity has increased.

“It’s complicated, not just because of the pandemic but because of supply chain issues, products coming out of Asia and tariffs,” he said.

The Bottom Line

Ultimately, Mustin said, the choice to spend on finance automation is about more than just new systems and capabilities. Rather, it signals a choice to create scale and opportunities.

“Companies seem to be trending proactive and choosing to invest in their businesses,” he said. “They want to attend to their customers and take care of them through better insights and capabilities.”