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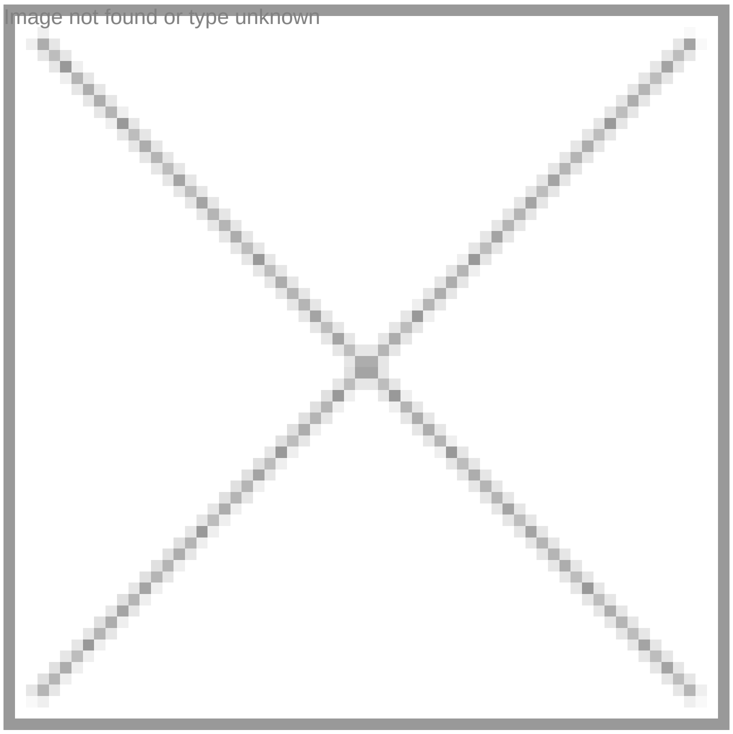

Turning CFOs into strategic partners

Paul Bierbusse, business advisory services, global pharmaceutical industry, Ernst & Young Global

As a support function, finance has typically been one of the last places within a company targeted for cost reduction efforts. In pharmaceutical companies, finance chiefs have had even more breathing room, thanks to low operating costs and hefty profit margins.

But now, owing to price pressures from insurers and government regulators, efficacy issues related to their drugs, and depleted new product pipelines, pharmaceutical chief financial officers (CFOs) are being pushed to reduce the overall cost of their finance organizations while improving the efficiency and effectiveness of their businesses.

The trouble is that many of these finance leaders aren't equipped to go beyond a typical review of their cost structure. They know they want expenses to drop as a percentage of revenue, and they are guided by the goal of hitting industry benchmarks. A certain comfort level develops when companies stack themselves up against others in their trade. But if all pharmaceutical companies are equally inefficient, what good are these benchmarks?

Many companies still rely on instant-gratification cost-cutting campaigns that help them hit their desired cost reduction target. They opt for the easy course, moving transaction processes such as expense reporting, payments, and other basic accounting procedures to in-house shared services operations or outside the firm to third-party vendors. Since this approach does little to reduce work, this strategy is like squeezing a balloon; no wonder CFOs are surprised to find they have merely pushed costs somewhere else in their business.

CFOs in the pharmaceutical industry are discovering that their departments' costs can't be managed in isolation from value. Differentiating services from both a cost and value perspective has helped them identify those tasks that are strategically distinctive to their enterprise versus those that are simply operationally effective. That meaningful vetting has enabled some of them to transition from being their companies' scorekeepers to helping shape the play as business partners with seats at the strategy table.

Prioritizing responsibilities

Transaction processing is the least valuable task in terms of return on effort, followed by financial stewardship and compliance. Reporting and analysis sit on a higher value stage, topped only by strategic insight. A brief examination of each level of value helps to frame the existing opportunities.

For example, in transaction processing, the quick hits have come from outsourcing basic accounting tasks such as payroll or setting up standardized practices across the company to handle billing and procurement.

Forward-thinking companies are now taking the next step: trying to redeploy more difficult tasks that involve customers, like order-to-cash (the process that drives the steps of a transaction from the time the order is placed to when the account receivable is collected). For example, while businesses wish to retain the customer interface afforded through direct salesperson contact, the accounting activities related to invoicing generation and presentation, as well as cash collection, can easily be standardized and centralized into a shared service center. This shift can achieve significant efficiencies and, often, improve the effectiveness and quality of the underlying process.

In stewardship and compliance, US-listed firms have built up massive organizations in recent years to meet Sarbanes- Oxley and other regulatory requirements. But by adding layers of employees who serve only to make sure the company doesn't do anything wrong, they have effectively handcuffed their business. As one CFO puts it, "We've got checkers checking the checkers' checkers." Therefore, the CFO is challenged to create a controls environment focused on cost-effective management of risk.

Tools to tame data

Finance chiefs are right to be worried about the legal and reputational cost of noncompliance, but they aren't taking advantage of statistical modeling tools that could help them establish more cost-effective controls. Organizations that have recently deployed standardized business systems could install enhancements that can screen for red flags, obviating the need for manually reviewing each transaction and significantly lowering the cost of compliance.

When it comes to reporting and analysis, it's clear that many companies don't understand the cost or efficiency of information. A supervisor may ask an employee a question about the profitability of a product in a certain market, and the employee sets off on a lengthy mission to procure the data, build a report, and conduct the analysis required to come up with the answer. The supervisor might have been satisfied with just a degree-of- magnitude answer yet receives a report specific to the fourth decimal place and supported by over 50 slides.

Finance operations tend to build large infrastructures to obtain information that may not always be needed or that may overwhelm decision-makers. As a result, hundreds of employees might be dedicated to reconciling and verifying information contained in disparate systems. Often, the same analysis is also being conducted by one or two separate divisions. Finance transformation is successful when it puts in place systems that produce this information in a timely, accurate, and relevant manner. When these answers are readily available, finance organizations can focus on value-added analysis.

Functions with the highest value within finance organizations are those that provide strategic insight and transform the image of the CFO from that of a bean counter to that of a stakeholder in the company's future. If you look at what CFOs are engaged in at the world's leading-edge companies, they're elbow-to-elbow with their chief operating officers, figuring out what companies to buy, what new products to develop, and how they want to communicate with their investors. It's one thing to set and maintain a budget for the marketing unit, for instance, and quite another to bring the rigor of finance to the operation, devising ways to measure the worth of marketing investments and make them more efficient.

Sadly, few CFOs spend a significant part of their day concentrating on these crucial topics. In fact, in a recent Ernst & Young survey, conducted by the Economist Intelligence Unit, 56 percent of pharmaceutical executives felt that CFOs spent the least amount of time acting as business partners, occupied instead with lower-value activities.

Think back to that pyramid. The first three tasks -transaction processing, stewardship and compliance, reporting and analysis - all tell you what happened in the past. Strategic insight is about helping the company achieve what it wants for the future.

Outlook

Finance leaders in the pharmaceutical industry would do well to think to the future and start focusing on strategic cost savings that increase the value of the CFO function. Last year, there were a record 2,302 job changes by CFOs, according to CFO.com. The reasons for such job turnover, according to most of those surveyed, were regulatory reporting burdens and an increase in board and stakeholder demands. Those challenges are unlikely to change. The only way to overcome them is by prioritizing your goals and aligning your cost structures to match.