The *Connected* Business

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Board can struggle with data puzzle

Paul Taylor says business leaders are trying to understand how IT can cut costs but also help functions be more effective

Like the companies they run, most corporate executives and senior managers have seen their roles in the business altered, if not transformed, by IT over the past few decades.

In many companies, the chief executive and leaders of core business functions such as finance, human resources, sales and marketing and sometimes the chief information officer, meet regularly as an executive board.

But, as Gartner consultants point out, that does not always mean they pull together as a team on issues including the use and deployment of technology.

Many factors can affect what Gartner calls "the dynamics across the table". For example, only about 38 per cent of CIOs report directly to the chief executive.

"There is more than one successful model for an enterprise," says Val Sribar of Gartner, "but we have generally seen a maturation process of the dynamics across the table."

Initially he says, individual business leaders tend to think in "silo terms" but then business function leaders start to pair up or organise themselves into small groups and work across silos. "The most advanced organisations really do have a set of things that are done collaboratively all the way round the table." Often they are spurred on by a chief executive with a wider vision.

Among the more common pairings are the head of sales and the marketing manager who co-operate to achieve a particular objective, for example to ensure that marketing does a better job handling leads to sales.

Similarly, there is often a natural affinity between the head of procurement and the chief financial officer who want to know what money is being spent on and who the biggest suppliers are, or between the head of customer service and either the heads of sales or marketing or maybe all three.

Liz Miller, a vice-president of the US-based CMO (chief marketing officer) Council, adds that another natural pairing is between the chief marketing officer and the CIO. "There is a great opportunity for companies to increase revenue if CMOs and CIOs partner using digital marketing to improve their focus on the customer," she says.

The Gartner consultants have identified three specific scenarios that can help drive co-operation between business leaders.

First, the introduction of a product or service. This can sometimes drive sales, marketing and the head of manufacturing to work together to get a product to market. Second, mergers and acquisitions often spur co-operation as does the decision to enter a market.

"If a company makes the decision to go into a new geographic market like China, the whole of the top table really needs to be on the same page," says Mr Sribar.

Another way of looking at the development of an organisation and the relationships of the senior management team is to look at the use of information and how they make decisions.

Initially each business function leader turns up at the executive meeting with their own set of spreadsheets and anecdotes, and 90 per cent of the time at the table is spent arguing over who has the most accurate set of numbers or the more compelling set of anecdotes.

"They literally fight about what the real information is," says Mr Sribar.

At the next level of maturity, the executive board agrees one executive should be responsible for collecting each data set, for example sales or customer information.

"Then, instead of 90 per cent of the conversation at the executive level being a fight about what the information is and which anecdote is valid, it moves on to a discussion about what the information says."

After that, the executive board typically begins to spend more time discussing what they are going to do with the information and then assessing whether their actions worked. "The use of technology is very different depending on what level of maturity the company is at," says Mr Sribar.

"At the top level companies are trying to be more predictive ... they are not just trying to be smarter about how they deal with information and make decisions, but they actually want to drive the changes and outcomes."

But the consultants also warn, "business leaders really struggle when it comes to connecting the information side of the puzzle and things like decision making with the profit side of the puzzle and things like outcomes."

One of the problems facing business leaders is that the information systems installed over the past 30 years have led to a "data deluge." To help them sift through this data, IT departments have introduced another layer of technology usually under the banner of "BI" or business intelligence over the past 15 or 20 years.

"What you see is business leaders in meetings holding some of these spreadsheets and reports up to the light and saying 'I wish we could see the patterns in this stuff''," says Gartner. "All of these guys would like to have a better forward looking view and be able to predict what is going to happen both in their own functions and across the table."

Gartner also argues "dynamics across the table" lead to strikingly different ways of getting value from technology. For example, most executives want to reduce costs by adding self-service capabilities for employees and by creating communities where customers help each other – a move they say enables companies to effectively "add people to customer support without paying a dime."

Alexander Drobik of Gartner argues companies have also shifted their IT focus over time. "IT used to be very much aimed at efficiency, reducing costs, accelerating processes and taking people out. What has happened in the past five to 10 years is that technology has moved into front office functions – the things that impact HR, finance, sales and marketing and so on."

Today he says business leaders are trying to understand how IT can take further costs out, but they also want to use information they have access to, and the technologies that they and their customers and suppliers have, to run their functions more effectively.

A lot of IT in the past 30 years has been about efficiency gains, but suddenly business leaders see a new set of IT capabilities becoming available that enable them to become more effective.

For example the HR director can now use IT systems not just for benefits and payroll, but for talent management and recruitment. "You see this duality between efficiency and effectiveness for everyone around the table," says Mr Drobik.

But he also has a warning for CIOs who talk technology rather than business strategy.

"CEOs care very little about the 'cloud' or virtualisation or web 2.0 ... its not a message they understand. They want to understand what technology is available that could help them run their business in a more effective way.

"To a CEO, the cloud is something the CIO should sort out and figure out how it can help.

"CEOs don't generally wake up in the morning and say, 'I have a problem retaining customers, so must go cloud.' They will say, 'I have a big problem retaining customers, what do I know about why customers are leaving? What analytics do I have and what is my marketing guy doing for me?'"

For many business leaders, IT remains a mysterious "black box".

But what everyone agrees on, is that business functions and IT are now totally intertwined and that IT vendors and CIOs need to step up to the new challenges.

'The use of technology is very different depending on what level of maturity the company is at'

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Video Techtalk
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Guest Column
John Hagel and **John Seely Brown** of Deloitte on hidden pools of knowledge in your business

Boardroom debate
Ade McCormack says technology advances leave no room for excuses on organisational rigidity

Digital digest
The latest corporate technology news

Retailers test new ways of selling

Sales & distribution

Extensive planning is essential to plunging into the multi-channel world. **Michael Dempsey** reports

The retail industry has one big advantage when it comes to judging new technology. It has been here before – in the late 1990s dotcom frenzy. Witnessing assorted dotcoms plunging into the chasm between rash promises and the hard challenge of delivering to customers was a salutary experience.

Figleaves.com began selling lingerie at the peak of the dotcom hysteria in 1999. Today the business ships goods worth £23m to 146 countries and the past two years have seen Figleaves breaking online commerce taboos. It now prints 1.2m copies of a catalogue each year. And it has a bricks and mortar incarnation as a small branded presence in two UK department stores, with other store chains including its designs on their racks.

What gave rise to this strategy?

Julia Reynolds, Figleaves' chief executive, describes how the example of a plethora of lingerie websites forced her to reconsider the business model. "Our competitors all had websites, so where was our unique selling proposition? We started to design our own products rather than just selling other people's brands and we looked at our channels."

Ms Reynolds sees physical outlets and the catalogue as essential brand promotion. "We're not moving off the internet, but we want to get our brand out more."

"M-commerce" – sales and marketing via mobile devices – has come of age with the arrival of "smarter" phones with better screens. United, the gigantic carrier formed by the $3.2bn merger of United Airlines and Continental Airlines, has embraced m-commerce and put ticket data into an electronic bar code acceptable for security scanning on US internal flights.

Ash Bagchi manages voice technology at United's Chicago headquarters. He cites the hurdles the mobile channel has had to overcome. "Five years ago, people had the phones but the lack of mobile browsers, the limitations of bandwidth, the coverage gaps and standards of mobile websites all conspired to restrain this technology. In the past two years things have changed."

The technology may have matured, but for Mr Bagchi one rule cannot be ignored. "There is always scope for things to go wrong. What if there's a lack of connectivity before a flight? What if phone batteries are flat? There has to be a kiosk to print off the ticket."

Practical thinking allied to extensive testing is essential if any business is going to take the plunge into a multi-channel sales model.

The Mobile Marketing Association (MMA) is a global body for what it calls the "mobile channel ecosystem". European managing director Paul Berney points out, "People use mobile sites in a different way from the normal internet. People don't browse in the same way they would at home. The information has to be relevant to the context of the user, to be linked to their location or time frame. A lot of mobile internet searches are for taxis or food."

Mr Berney compares mobile data consumption with snacking, "it's not a full meal", and urges businesses launching into m-commerce to imagine potential users glancing at their offering in a bus queue. The mobile relationship is brief and casual.

Argos is a UK retailer with a distinctive business model entailing catalogues and no-frills stores where customers choose, pay, receive a ticket and then wait to pick up low-price home and electrical goods that arrive by conveyor belt from the rear of the premises. With 700 stores, Argos has learnt to combine emerging technologies with this somewhat unusual sales and distribution method.

Internet transactions account for 32 per cent of sales but customers can research and reserve a product online, receive order information via text, and travel to the shop to pick it up.

Working with mobile marketing group Velti, Argos has expanded its text service to allow customers to search its catalogue over mobile phones.

An Argos app for the iPhone was launched in May 2010, attracting 500,000 downloads in three weeks.

Software house Shutl links online orders with a database of vehicles and stock. This works out the best delivery option and flashes a quote for home delivery to the customer. Argos is trialling this system in London.

Where does this technology partnering leave Argos? The company remains focused on its core proposition of immediate collection from its shops and rapid replenishment of stock. David Tarbuck, head of multi-channel development, has no illusions about the need for technology to bend to the desires of his customers.

"The Argos experience is that customers will mix and match channels to suit themselves. There is no such thing as the 'multi-channel' customer, only customers who choose to shop in multiple channels."

Delivery options: Argos lorry en route

A trip with a tablet can be like travelling with a donkey

Alan Cane
PERSPECTIVES

Had Robert Louis Stevenson been alive today he might – as a writer and with the advantages of modern transport – have eschewed Travels with a Donkey in favour of Travels with an iPad. Both have advantages and disadvantages as travelling companions. Both can be sources of serious frustration: donkeys when they refuse to budge; iPads when they refuse to connect to a network.

Donkeys, however, can be encouraged to progress by a combination, as Stevenson learnt, of stick and carrot. But without the right WiFi password or an appropriate subscriber identity module (sim) to latch on to a 3G network, Apple's piece of electronic wizardry can be singularly donkey-like in its refusal to do its user's bidding.

Travelling in France recently, I found no shortage of internet cafés providing free and secure WiFi: but it took some time to realise that if the café changed its password daily, it was necessary to instruct the iPad to forget its previous affiliation to the network before it could be persuaded to accept the new password – nothing about that in the manual. But where there is no WiFi, the iPad connects, iPhone-like, to a 3G network. Mine, however, did not. The iPhone worked perfectly but the iPad stoically flagged "no service".

Only once back in the UK did I discover there are no roaming agreements between operators in Europe for the iPad yet: I would have had to buy a French sim for the device to work. Oh, and I discovered that in any case the UK sim had been wrongly installed, almost certainly by me. Correctly inserted, the iPad worked a treat.

These are just some of the hazards consumers resign themselves to accepting when they grapple with new technology. Business users, on the other hand, can usually count on the assistance of their help desks if there are problems with corporate IT.

There is, however, a long history of business people using unauthorised computer equipment, usually purchased by themselves, of which the iPad is just the latest example.

The falling cost of hardware and technical progress means this equipment may be better than anything provided in the office.

Industry experts agree the next phase in the development of the tablet market will be in the business arena

Industry experts agree that the next phase in the development of the computer "tablet" market will be in the business arena as executives insist on using their machines regardless of objections from the data processing department.

The iPad will soon face competition from more than a dozen tablets. Research in Motion's PlayBook and a machine from Hewlett-Packard based on technology from Palm (which HP bought this year for just over $1bn) may be the most significant participants in the business market.

Observers reckon the HP tablet will be based on Palm's webOS operating system and, like the next generation iPad, will include features such as a built-in camera. HP, moreover, has technology that makes it possible to view a computer screen in bright sunlight. This is more than a "nice-to-have" feature. One internet café I visited in France while desperately trying to connect to the internet provided WiFi but only outside. The iPad was unreadable in the bright sunshine. This was aggravating for a leisure consumer but it would be intolerable for a business user. HP's technology is one answer, but the user pays a price in battery life.

Fortunately, science has a habit of coming to the rescue at such moments. Scientists from the University of Cincinnati and the commercial companies Gamma Dynamics, Dupont and Sun Chemical recently announced the development of a kind of electrofluidic display that combines high speed with high readability and low power usage. It combines the best features of screens which use ambient light, such as Amazon's Kindle e-reader, with those which use back lighting – most laptop computers and tablets.

Essentially the device amplifies ambient light through a system of reflective electrodes to give a clear, high speed image. Some seven years in development, it is expected to be available to consumers in about three years time.

Meanwhile scientists at Tel Aviv University in Israel have built a rotation sensor no bigger than the head of a pin without sacrificing accuracy.

They expect the device to be incorporated in, for example, tablet computers where it would control the orientation of the screen and provide navigational information.

All these developments will be important for the use of tablet computers in business. The question now is whether CIOs can come to terms with these potentially anarchic devices and find a place for them in their IT strategy.

New on old: multiple media mean more work for chief marketing officers. They must create more content with budgets that have remained flat or dipped Alamy

Billboards and radio will still work to reach your customers

Marketing

David Gelles finds companies still trying to get to grips with the complexities of new media platforms

To promote its new "umi" video calling system, Cisco has set up elaborate glass-walled kiosks in shopping centres around the US where shoppers will be able to try out the technology.

Visitors will be able to make video calls to other users, and in some cases place a umi (pronounced youme) call to Santa Claus, who will be standing by at a Cisco call centre.

Rolling out in 20 centres across the country, the kiosks are a costly affair. And in an era when online marketing is taking off, this type of "bricks-and-mortar" approach might seem dated.

But Cisco is betting that a combination of "experiential", traditional and online marketing will make umi a Christmas holiday hit, and it is doing its best to integrate these various efforts as a multimedia campaign.

Visitors to the kiosks who want more information can send a text message and have the address of the umi website sent to their phone. Ads will also appear on television, in print and on the web.

"It is great to use the techniques that worked in the past, and then use new forms of marketing as well," says Cisco chief marketing officer Sue Bostrom. "There certainly are a lot of different avenues to pursue, but it's a huge opportunity."

The proliferation of communications media has made marketing products in the 21st century much more complex. Decidedly old-school methods – from billboards to radio – are still relevant. And while the internet is siphoning off some ad dollars from television, TV still commands the lion's share of chief marketing officers' annual spending. At the same time, developments such as social networking and smartphones are giving marketers yet more places to broadcast their messages.

"There's been a huge fragmentation over the past several years," says Seth Solomons, global CMO of Digitas, the digital marketing agency. "There is added complexity without a doubt."

When business software maker SAP launched a global marketing campaign this month, it took a multimedia approach, with content for TV, print, the web and mobile devices.

Called "Run Better" the campaign includes everything from mobile websites optimised for the iPhone to a takeover of the New York Times website home page. The multi-pronged approach marks a departure for SAP, which focused its efforts on TV and print when it launched its last global campaign a few years ago.

> 'Most content is a little more haphazard than it should be. Taking a TV ad and pushing it on to the web won't necessarily work'

"It's a pretty different world in that short three years," says Marty Homlish, chief marketing officer of SAP. "Three years ago the iPad was a dream. The iPhone was a dream. It's a very different environment today."

The goal of the SAP strategy, says Mr Homlish, was to reach customers on their own terms, wherever they happened to be. "The audience always wears multiple hats," he says. "At 8am the chief executive could be acting as a chief executive, and at 9pm he could be sending a [text message] to his daughter at university."

A multiplatform approach may seem *de rigueur* these days.

Yet not all marketers are convinced it is the best approach.

"SAP may decide that they want to do all these pieces, but I hope there is a question that's being met, rather than just a matching luggage campaign where you put the same creative across lots of properties," says Mr Solomons. "It can't just be part of the new checklist. There is no new checklist."

Still, companies are creating content that can be pushed across multiple platforms, from HD TVs to 3-inch smartphone screens. "It really doesn't matter what screen you're looking at," says Mr Homlish. "The videos we create live on mobile, live on computers, live on television."

But Mr Solomons questions the merits of simply moving content from one platform to another. "Most content is a little more haphazard than it should be," said Mr Solomons. "Taking a TV ad and pushing it into a web environment won't necessarily work."

Recognising as much, Cisco is reworking some of the umi 30-second television spots and editing them down to 10 seconds for the mobile web. "One of the most powerful developments has been the proliferation of video," says Ms Bostrom. "A video is worth hundreds of thousands of words."

But multiple platforms often mean more work for CMOs. They must create more content with marketing budgets that have remained flat or dipped.

The problem is particularly acute when it comes to the web and mobile web, as companies are forced to reformat content to work on various platforms.

SAP, for example, had to change its website so it worked in Flash on PCs, and in HTML5 for the iPad, as well as a version optimised for mobile browsing

Nonetheless, companies seem to be moving inexorably deeper into the web with their marketing efforts.

"As time goes by we are moving more and more towards digital," says Virgin America vice-president of marketing Porter Gale. Virgin America, which sells most of its airline tickets through its own website, has increased its online efforts in hopes of driving more traffic to its home page.

"In the past five years here we have done a significant amount of reallocation of investments," says Cisco's Ms Bostrom. "The business goals are similar, but the ways that customers want to engage with us changed."

Sophisticated software is less in use for more strategic roles

Human resources

Richard Donkin notes employers can access a mass of data but are also legally bound to protect privacy

A recent survey of human resources and information technology managers in the UK revealed a widespread belief among HR professionals that IT, used effectively, improves business performance.

But feedback suggested no more than a third of UK employers would be seeking ways to integrate HR management with better IT systems in the next two years.

The research, by Taleo, the HR systems company, highlighted a mismatch between expectations among HR and IT managers, with HR people placing less faith in technology. Moreover, the research found the more strategic the HR role, the less it was likely to draw on sophisticated software.

The findings seem puzzling since HR practices have become so integrated with technology that it is difficult to find any part of HR that is not dependent on some kind of software or IT.

But Chris Phillips vice-president of international marketing at Taleo, says the research pointed to a gap in understanding between the functions.

Part of the mismatch is revealed in contrasting priorities. While IT professionals are seeking to improve functionality of systems, HR managers must maintain awareness of a whole raft of legal and ethical responsibilities around confidentiality in processing data.

The potential to store increasing amounts of data as software-as-a-service applications gain ground in HR means HR professionals are often positioned as guardians of employee rights and the laws of privacy, particularly with regards to the Data Protection Act.

"Employers have a duty to protect people's data," says Ben Willmott, senior public policy adviser at the Chartered Institute of Personnel and Development. "The level of information employers are holding on employees has increased and that has placed an added onus on employers to respect confidentiality and protect sensitive personal information.

Employees working from home or using their own computers and software have led to a grey area in establishing policy over the use of IT, says Mr Willmott.

For some employers one of the biggest challenges around greater use of IT, such as social networking media, has been the potential for loss of control and supervision.

This has led to some companies exploring the use of social media systems and arrangements in their internal systems.

"Building a private network for large employers enables them to run a service similar to LinkedIn, Facebook and other social media, without fear that their internal data will be compromised," says Peter Ward, chief executive of Employer Connections, a business that builds internal networks. "We're building from the enterprise outwards and that means the business stays in control of its intellectual property."

For many employers, however, cost saving, efficiencies and geographical reach remain at the heart of their HR technology drives. Julian Fontenell, talent acquisition manager at Cable & Wireless Worldwide says video conferencing has enabled the business to access a wider pool of specialists.

"We recently interviewed and recruited a submarine cabling engineer, a highly specialist role. The successful candidate was interviewed in Thailand from the UK using video conferencing technology. This was the best option available to us. It enabled us to have eye-to-eye contact with the candidate without incurring the cost in time and money of travelling," says Mr Fontenell. "The interview flowed just as it would have done in a face-to-face meeting."

Erik Berggren, head of global research at SuccessFactors, a software-as-a-service company, says chief information officers are under severe pressure to cut costs, leading to widespread migration of services into cloud computing.

> 'The level of information employers hold on employees has increased and that has placed an added onus on employers'

As employers become comfortable with cloud computing, high quality HR technology will be available more widely to smaller businesses says Chris Barnatt, Associate Professor of Computing and Future Studies in Nottingham University Business School.

Companies such as Zoho, for example, are offering to smaller businesses, the kind of HR services normally found in large company departments.

The cost-saving in shifting some HR services online has allowed companies such as MyWorkSearch to offer outplacement services – that help redundant employees find jobs – at a fraction of the cost of office-based competitors.

"Our users can search job vacancies through our online database and they can do it any time of day and night," says Richard Alberg, chief executive. "The conventional thinking was that you could only do outplacement with human beings working face-to-face. But we can provide key information to people through the website."

Online and cloud computing trends for HR seem clear: if HR technology can be accessed and delivered more cheaply, securely and smoothly over the web the wrangling over employer-based departmental silos may become a thing of the past.

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Look hard and social media may yield good ideas

Strategic planning

Sifting data for subtle trends and customer sentiment is not easy, writes **Stephen Pritchard**

In a recent report Gartner, a research firm, identified at least 100m websites and social media services, used by more than 600m people worldwide.

These consumers "are influencing each other's behavior and buying activities, all outside the traditional reach of enterprise activities", says the paper.

Over the past few years, the number of consumers using blogs, online discussion groups and social media sites has exploded.

Facebook alone claims 550m users worldwide. At the start of this year, Twitter, another popular social media site, claimed 75m.

The sheer scale and scope of online services dwarfs even the largest businesses' own databases. Tesco, the retail group that did much to blaze a trail for analysis of customer data, has 13m active members of its Clubcard loyalty scheme in the UK.

Companies such as Tesco have successfully used information from their own databases to improve sales. But the opportunity to mine the wider internet for strategic information, as well as information on competitors, is that much greater.

"You can use these networks to get some extremely insightful and rapid information from consumers," says Gary Curtis, co-head of Accenture Technology Consulting. Social media and websites also give companies the chance to look for business insights among much larger groups of consumers than they could access through conventional market research, he suggests.

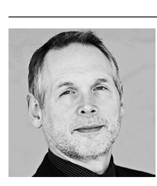
Companies ranging from grocers to consumer electronics manufacturers and airlines and hotel groups are already using sophisticated tools to research what customers are saying about their brands online.

"Especially in consumer products, it is becoming very important to engage with communities of interest, as that will have an impact on the decisions a company will make," says Chris Steel, head of the North American IT practice at PA Consulting. "[Social media and the web] is not something organisations can afford to ignore."

By monitoring trends on sites such as Twitter, as well as comments on popular blogs, companies are using software to carry out "sentiment analysis" around their brands. This, for example, can give managers an early warning of a customer service issue, or even that a competitor has come to market with a more attractive offering.

These tactical insights are valuable to businesses, because they can often provide quicker feedback than conventional data sources, such as customer service records or point of sale systems. By the time a business notices a fall-off in sales from its back office systems, the customer has already moved on.

Scanning the internet and social media gives businesses a way to pre-empt problems, as well as to generate more positive feed-



Gary Curtis: 'You can use networks to get very insightful information'

back, for example by directing dissatisfied customers towards a service site, or by promoting special offers. But this is largely a tactical response to day-to-day problems, rather than an attempt to influence strategic direction.

"Strategy is the hard part," says Jeff Mann, research vice-president for collaboration and social software at Gartner. "But there are examples. What you are looking for are the weak signals. You are looking for things going on that may be more important in a couple of years time."

Car companies, suggests Mr Mann, are starting to use the internet and social media to look at factors such as consumer attitudes towards green technology.

Given the relatively long development cycles for automotive technologies, manufacturers want to gauge the views of today's college students, as these will be their core customers in 10 or 15 years' time.

In groceries, retailers and producers of vegetarian ingredients might scan recipe sites for new vegetarian dish ideas, in order to predict demand. Conventional business analytics tools cannot provide that depth of insight.

"One of the biggest advantages [of social networks] is input from people you don't know about yet," adds Mr Mann. "Software such as ERP – enterprise resource planning – is really good rear-view mirror stuff. It gives you an idea of what the customer base is thinking of, but there are a lot more people who are not customers."

Gaining access to this group should give businesses ideas that go beyond their current products or services. "Social media contains deliberately chaotic sources of information," says Andy Mulholland, chief technology officer at Capgemini, an IT consultancy. "Social media give genuinely chaotic results, but that also opens up genuinely new ideas."

Often, the reaction to new ideas can be highly polarised on internet sites or social media services, but Mr Mulholland does not believe that should deter businesses. "You need to distinguish between people who say they don't like your product, but have not tried it, and those who have a reason for their dislike."

Sifting through data for weak signals or subtle sentiments is not an easy task.

Although there is a growing market for tools that monitor social media, these typically look for key words or particular phrases associated with consumer sentiment. Turning that type of information into strategic insights still requires a large amount of skilled, human analysis.

Companies should also consider the context of information they find, especially in social media sites.

Although, as Mr Curtis points out, businesses that do use social media often find customer feedback is less negative than they feared, by no means all websites are representative of public opinion.

"No successful business will bet the house on the first piece of analysis [from these sources]," agrees John Bastone, who is responsible for social media tools at SAS Institute, a software vendor. "The right way to do this is to test, and learn."

Smart systems are vital in volatile markets

Finance

Treasury management must also be backed up by good processes and company support, says **Charles Batchelor**

Computers have transformed the number-crunching aspects of the finance director's job in recent years. In today's volatile markets, the ability to provide accurate and timely information on the state of the business and its finances is even more vital for survival.

"Transaction processing is not the most engaging part of finance," says Andrew Meade, head of finance and performance management for consultancy Accenture in the UK and Ireland. "But it is a fundamental process so the company can pay its vendors and collect its cash. The fact that modern accounting systems do what they do so well at speed allows the chief financial officer to focus energy on other things."

Before the development of accounting or treasury management systems it could take a company months to close its books on a reporting period. It can now complete the process in two to three days.

Manually recorded data were also more susceptible to error with the result that resources might not be deployed to greatest effect and planning assumptions could be compromised.

Accounting systems began to emerge in the late 1980s when company treasurers started to realise the potential of the software. "There were the big systems that the banks used but there was nothing for corporates to use apart from spread sheets," explains Ken Lillie, founder of Lillie Associates.

"Treasurers decided to write their own. They concentrated on managing risk and cash but these became very powerful systems with a lot of experience built into them."

Some companies continue to use proprietary systems but most make use of the accounting functions available in enterprise resource planning software provided by the likes of SAP or Oracle. Other leading providers include SunGard and Wall Street Systems but there is a host of smaller ones.

For some smaller companies a cash management facility provided by their bank is adequate.

Finance and treasury heads can opt to install internal systems with varying degrees of customisation to their needs or sign up for what is known as "software as a service" – SaaS – which makes the product available on demand over the web and avoids the need to install and maintain the system in-house.

The move from the manual collection of data to computers has relieved finance departments of a considerable burden but it is only a means to an end.

> 'Finance needs to be a ruthlessly efficient transaction engine'

"Finance needs to be a ruthlessly efficient transaction engine that provides the capacity and the time to focus on the commercial decision-making," says Mr Meade.

"These systems allow you to run the analytics in real time and be more scientific about where your business and your customers are heading."

But treasury management systems do not function in a vacuum, he warns. They need to be backed up by the right processes, systems, policies and organisational support.

The in-house accounting management system will have a lot of interfaces with outside systems run by the company's banks, suppliers and customers. In choosing a system, the finance director and treasurer need to be certain that it will allow seamless links with these outside organisations. Staff will need to be trained.

And glitches can occur with even the best products. Something as simple as the different financial terminology used in various accounting jurisdictions can cause confusion. "You don't want to have to guess what something means because the financial language is different," says Mr Meade. "If everyone is not using the system in the same way, speed of aggregation and transparency are reduced."

Systems that have been in place for some time can start to show their age.

"Many treasurers still use systems that were initially sound but, over the course of time and with the increased demands now placed on them, many are now be found wanting," Mr Lillie wrote in The Treasurer magazine.

"Workarounds may have been implemented in the form of home-built extras or the acquisition of third-party systems, perhaps on a piecemeal basis and without proper integration or planning."

Mr Lillie advises finance directors to review their technology every three to five years both to check it is still performing well and to assess what has come on to the market since. "People tend to think: 'If it's not broke, don't fix it.' But it is good discipline to review the technology on a regular basis."

The credit crunch and subsequent financial turmoil have put a premium on companies managing their money in an effective and timely manner.

Counterparty risk has become a concern for finance directors in the wake of the collapse of Lehman Brothers. This makes accounting systems that track a company's exposure to individual banks even more important.

More volatile markets mean finance directors must keep an even closer eye on their exposure to the foreign exchanges, interest rates and the derivatives they use to hedge exposure. "Instability is the new normal," says Mr Meade.

Useful cuts – to wasted time and materials

Supply chain

Ed Hammond looks at how companies are using IT to work more efficiently

In a dusty warehouse on the outskirts of Birmingham the future of British housing is taking on a new shape.

Tucked away between one of the country's busiest motorways and derelict buildings of abandoned industrial estates, the Space4 factory, owned and managed by Persimmon Homes, the UK's largest volume housebuilder, is churning out a home every hour using production line techniques more familiar to the automotive industry.

While workers load the machines and cart around the finished panels of timber frame walls – which will be carefully slotted together to make kitchens, bedrooms and bathrooms at sites across the UK – computers drive the process.

This kind of IT-driven approach to both the supply chain and delivery of goods is an integral part of how industrial companies are using computers to streamline their operations.

Jeff Fairburn, chief executive of Persimmon's North UK division, says the "Just In Time" system, whereby the factory can adjust its rate of production in line with the demands of the housing market it supplies, is possible only because of sophisticated IT.

Jeff Fairburn: 'We can alter production output much faster than in the past'

"We have a programming system that we review on a week by week basis, so we know what are the demands at the other end. It means we can react much faster and change production output much faster than we could in the past," says Mr Fairburn.

When Persimmon took over the former double glazing factory in 2005, it assembled a workforce of former car-plant employees. The company also picked up some tricks from the automotive sector, particularly when it comes to minimising waste.

"Having the IT systems used to operate a factory environment means we have minimal wastage," explains Mr Fairburn.

"Computers tell us exactly which materials we are using and in what quantities, so we are able to restock the right amounts to match what is going out of the door and off to site."

As important as advancements in technology are for the building process, computers are having the greatest impact in managing the flow of materials and workers to and from sites.

When plans were being laid out for the construction of the 2012 Olympic park, one of the big concerns was how to manage the hundreds of trucks carrying everything from untreated rubble to seats for the 80,000 capacity stadium.

The fear was that, during peak delivery times, trucks would be queueing to get on site, causing traffic jams, pollution and noise in the corner of east London that is staging the event.

However, IT provided a solution.

Trucks heading for the building site are checked into a computer system once they cross the M25 – the motorway encircling the city – and this then staggers their arrival.

A few miles up the road, Cemex, one of the world's largest cement producers, uses E-pod computer readers at the lorry terminal of its new grinding and blending plant at Tilbury dockside. The system tells the drivers where and to whom they are taking the product.

On a smaller scale too, IT systems are making a big difference to the way industrial groups are working and, especially during the recession, helping businesses trim costs and gain an edge over competitors.

"Having the right technology and being able to use it to the good effect is the difference between success and failure in this market," says Chris Durkin, chief executive of Willmott Dixon Support Services.

Mr Durkin's company, which is part of a larger construction and civil engineering business, runs repair and maintenance work on 110,000 social homes in the UK and 12,000 offices. It directly employs a large workforce, rather than subcontracting labour and so has a high fixed cost base to support.

To help it offset the fall in demand for building work – which last year declined at the fastest pace since the 1970s – and keep its workforce utilised, Willmott Dixon has implemented systems to drive down costs and squeeze the highest profit margin out of the contracts it is still winning.

"When you have a large, directly employed, mobile workforce, optimisation of their time is the single most important thing," explains Mr Durkin.

Last year Willmott Dixon adopted a vehicle management system that allows it to direct each worker to a job and cut out transport wastage.

This has reduced fuel bills by 30 per cent, a saving of about £30,000 per month.

"It is little things like this, where computers have really helped us save money and time on the ground," Mr Durkin says.

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