

Digital Disruption in the Finance Function

December 11, 2020

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Digital Disruption in the Finance Function

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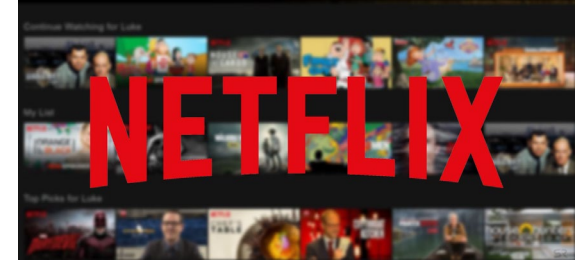
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Digital Disruption is all around us...

**But what
about in the
Finance
function?**



FINANCE EXECUTIVES KNOW DIGITAL DISRUPTION IS COMING... ...BUT WHEN AND HOW?



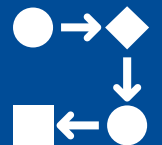
Old: Value Measurement
New: Value Creation



Old: Disparate Systems
New: Integrated Ecosystem



Old: Periodic, Batch Reporting
New: Real-Time Analytics



Old: Manual Processes
New: Automated Workflows

60%

Most CFOs still spend the bulk of their time on traditional finance/accounting activities (accounting, controlling, budgeting & planning, tax, etc.).

1/3

Less than one-third of CFOs believe their finance function has the tools and capabilities needed to go digital.

NEW FOCUS

Digital transformation in the finance function is on the horizon. It's time to start preparing for the journey.

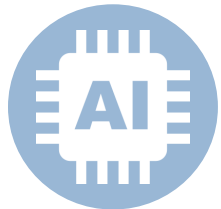
Agenda



Trend 1: Redefining the Role of Finance



Trend 4: Digital Transformation of Tax



Trend 2: AI / Machine Learning in Finance



Trend 5: Cloud Modernization of the Core



Trend 3: Robotic Process Automation (RPA)

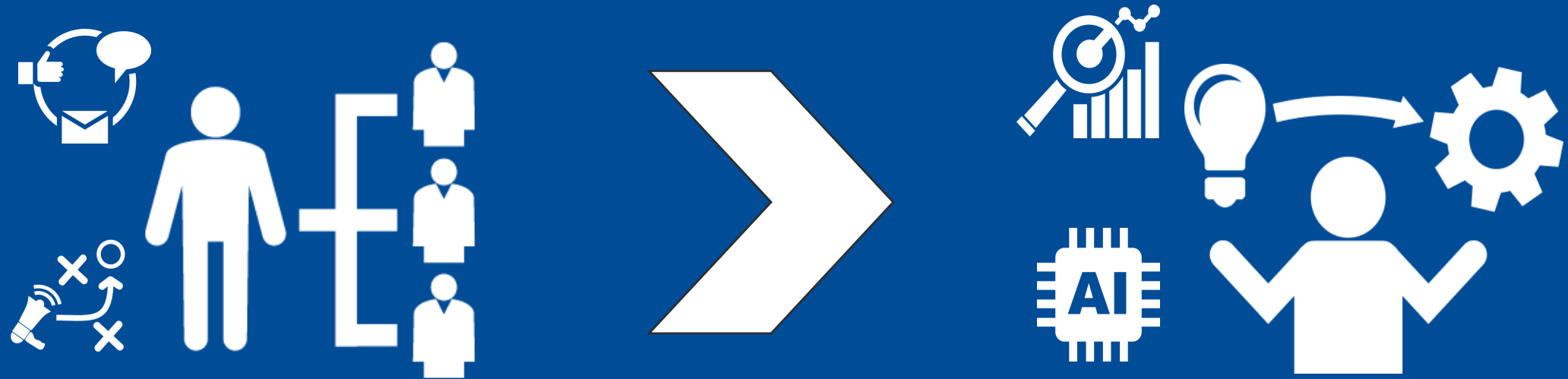


Wrap-up & Key Takeaways

1. Redefining the Role of Finance



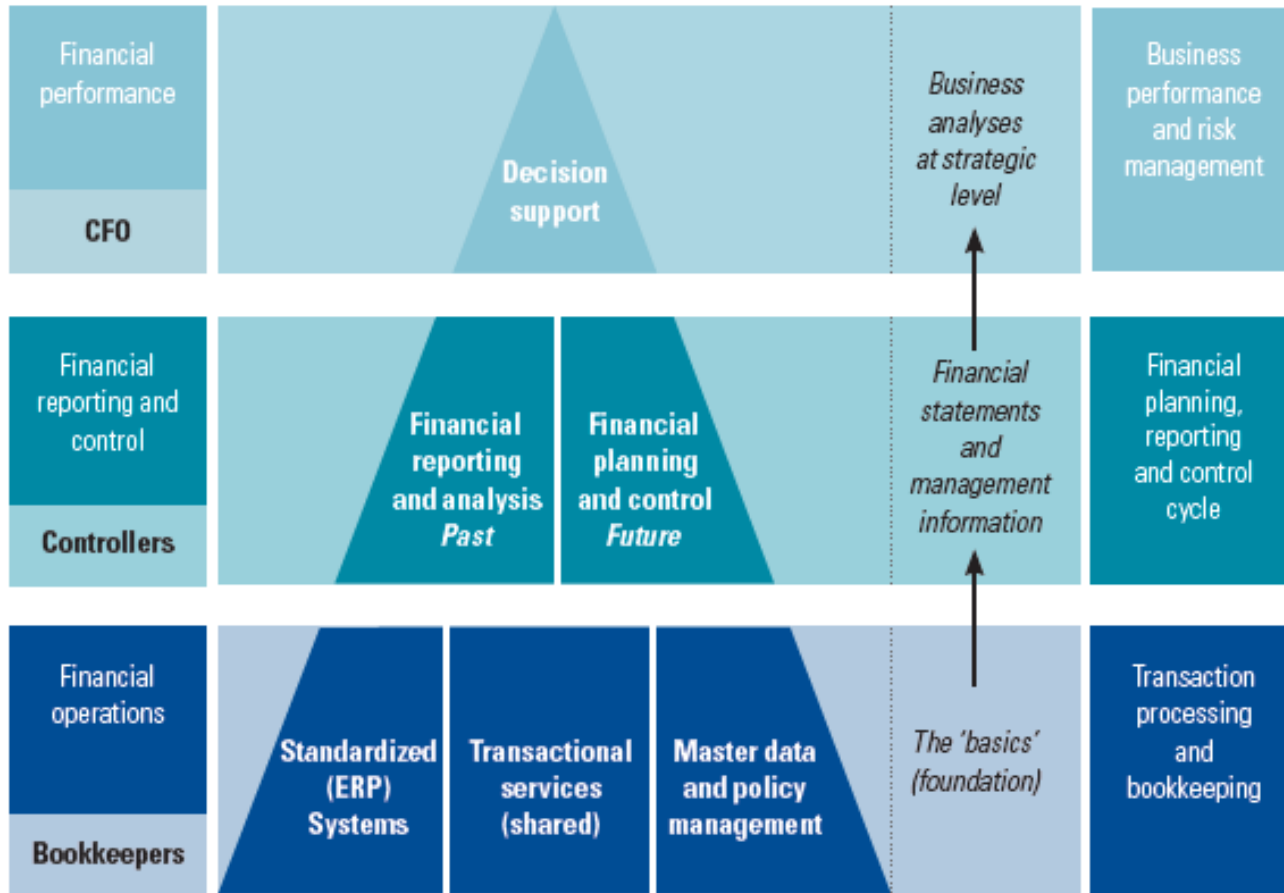
Finance's role is shifting toward value creation



Shift from instinct-driven to insights-driven approach

Finance organizations must “flip” the pyramid

Understanding the building blocks of a finance function



Source: KPMG International

The Modern Finance Organization..

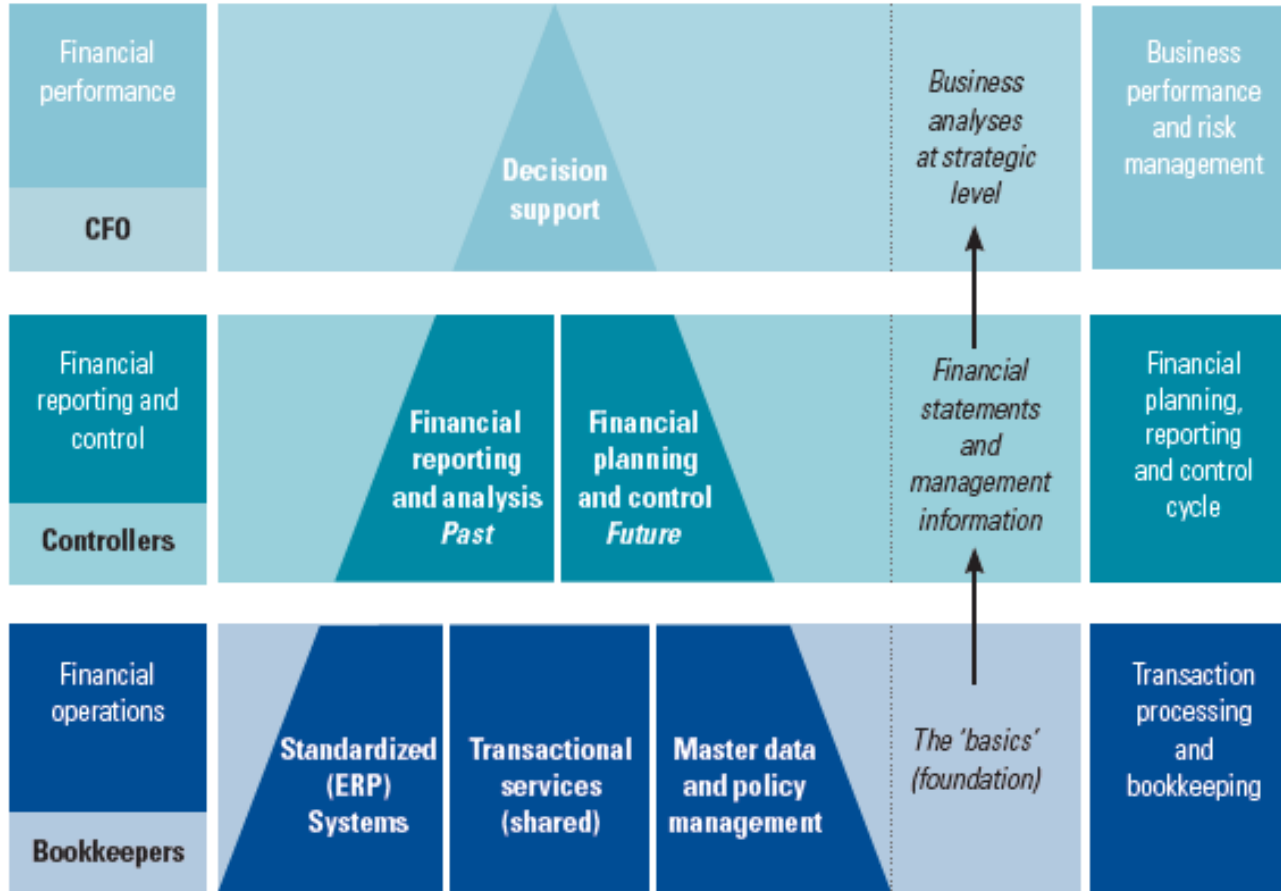
...has been automating the close process and financial/operational reporting for years.

...is now being asked to deliver more advanced capabilities for decision support.

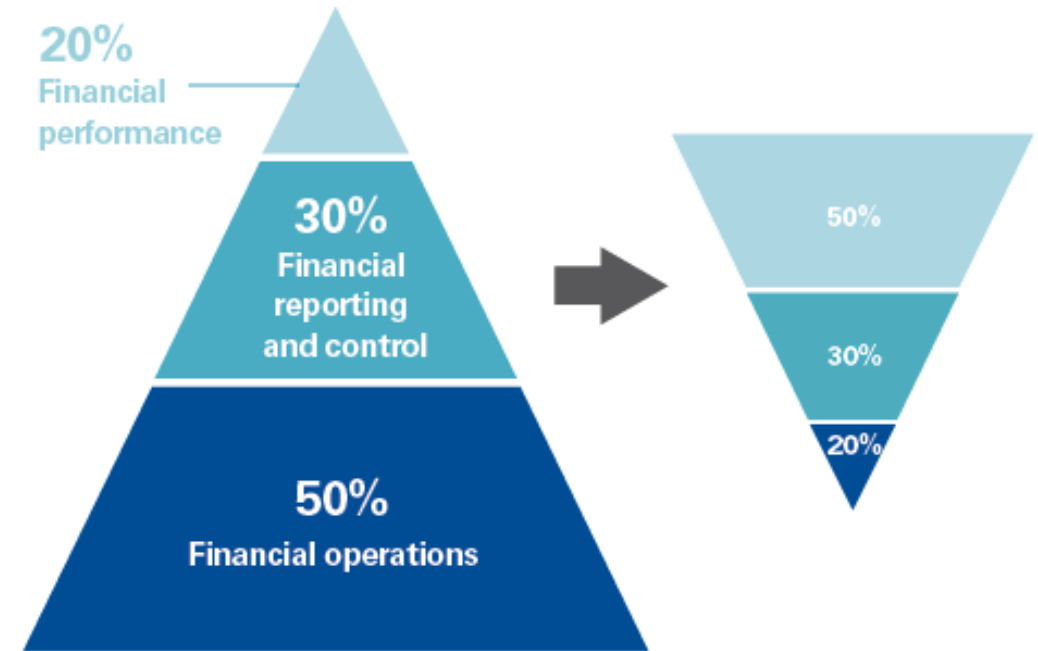
...is increasingly accountable for deriving value from data assets, delivering operational insights, and establishing a competitive advantage through advanced analytics.

Finance organizations must “flip” the pyramid

Understanding the building blocks of a finance function



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Redefining the Role of Finance

What you can do to prepare now



**Define future state
operating model**



**Upskill
capabilities**

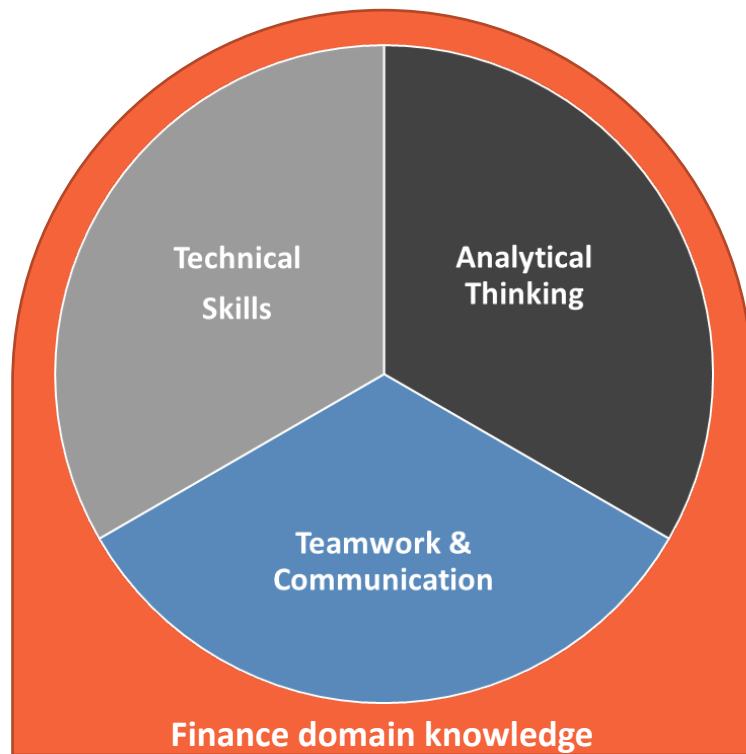


**Rethink talent
acquisition &
retention priorities**

Redefining the Role of Finance

How to prepare your teams for the shift

Skills of today
current workforce



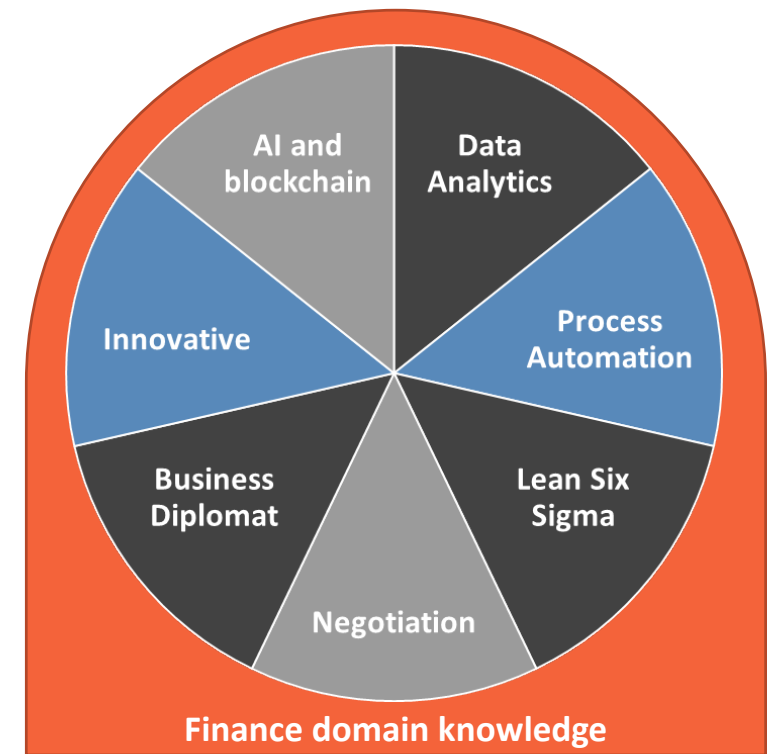
Workforce impacts

- Multiple generations
- New workforce models (digital, contingent, etc.)
- New skills and competencies

Business impacts

- New Services (increase in planning and consulting)
- New business models and pricing strategies
- New technology

Skills of tomorrow
workforce of the future



2. Artificial Intelligence/Machine Learning in Finance



Level setting on the terminology...

DATA SCIENCE

A field of study that combines domain expertise, programming skills, and knowledge of math and statistics to extract meaningful insights from data.

It encompasses Artificial Intelligence, Machine Learning and Deep Learning.

ARTIFICIAL INTELLIGENCE

A branch of Computer Science dealing with autonomous decision-making systems that imitate intelligent human behavior.

It encompasses Machine Learning and Deep Learning using Artificial Neural Networks.

MACHINE LEARNING

A subfield of AI where algorithms learn and change automatically based on patterns in data thereby making predictions on future outcomes.

DEEP LEARNING

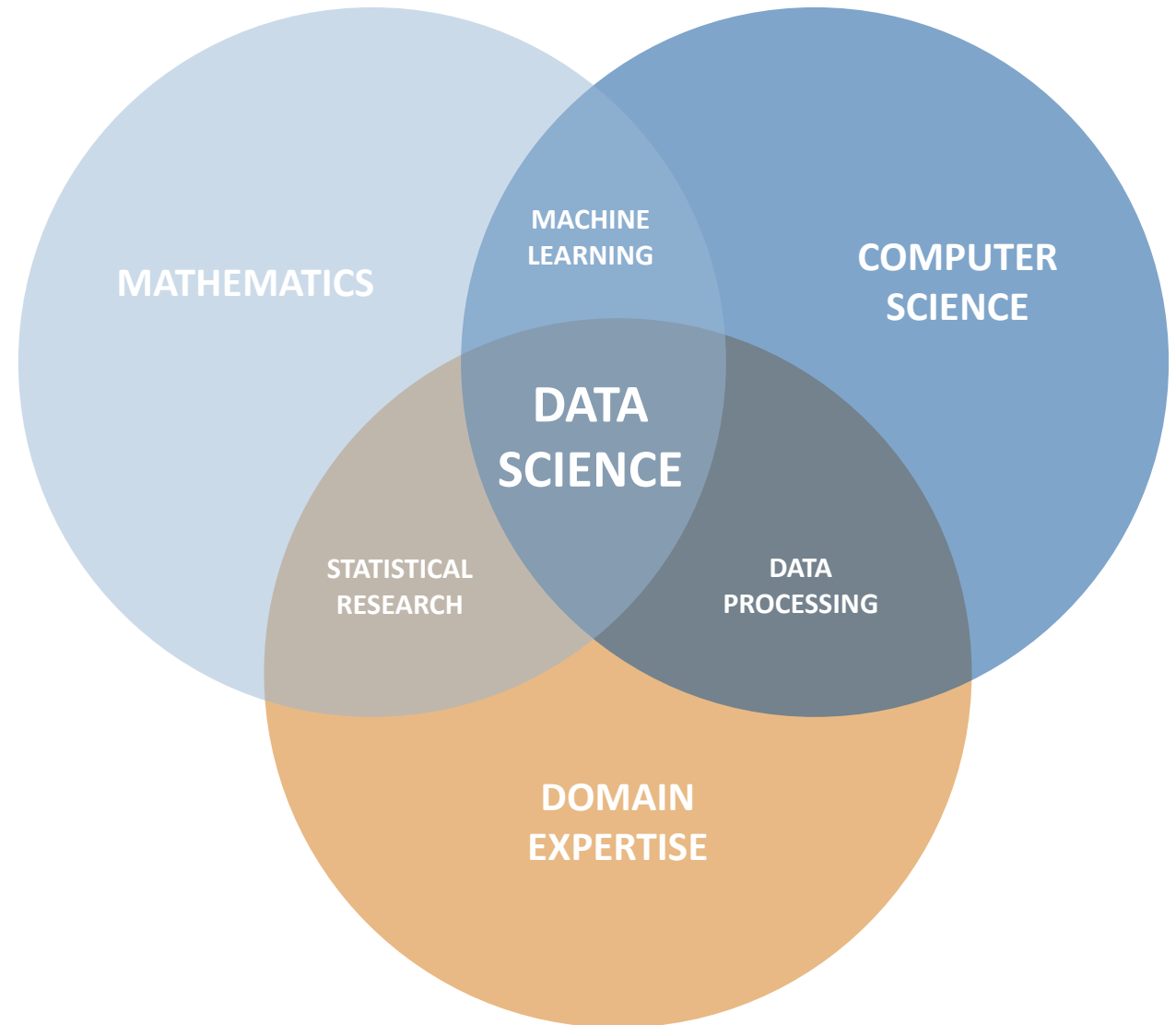
A subfield of Machine Learning that consists of multiple layers of “perceptrons”, which are loosely modeled after the neuron structure of the human brain.

What is Data Science?

Applying advanced statistical tools to existing data to generate new insights

An area that manages, manipulates, extracts, and interprets knowledge from tremendous amount of data

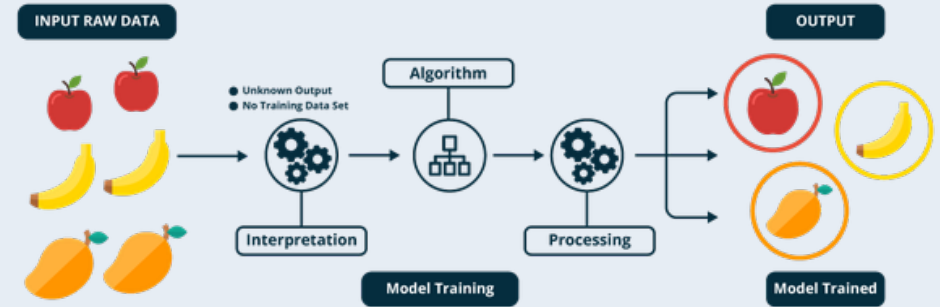
A data scientist not only does exploratory analysis to discover insights , but also uses advanced machine learning algorithms to identify events in the future



Machine Learning: Supervised vs. Unsupervised Learning

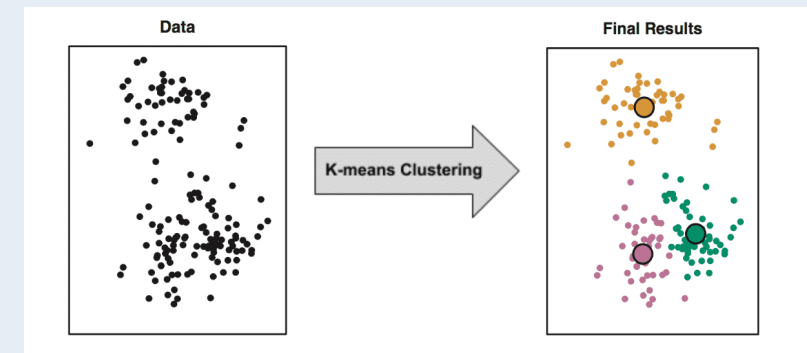
SUPERVISED

- We have prior knowledge of what the output values for our sample should be
- **GOAL:** learn a function, that given a sample of data and desired outputs, best approximates the relationship between input and output observable in the data



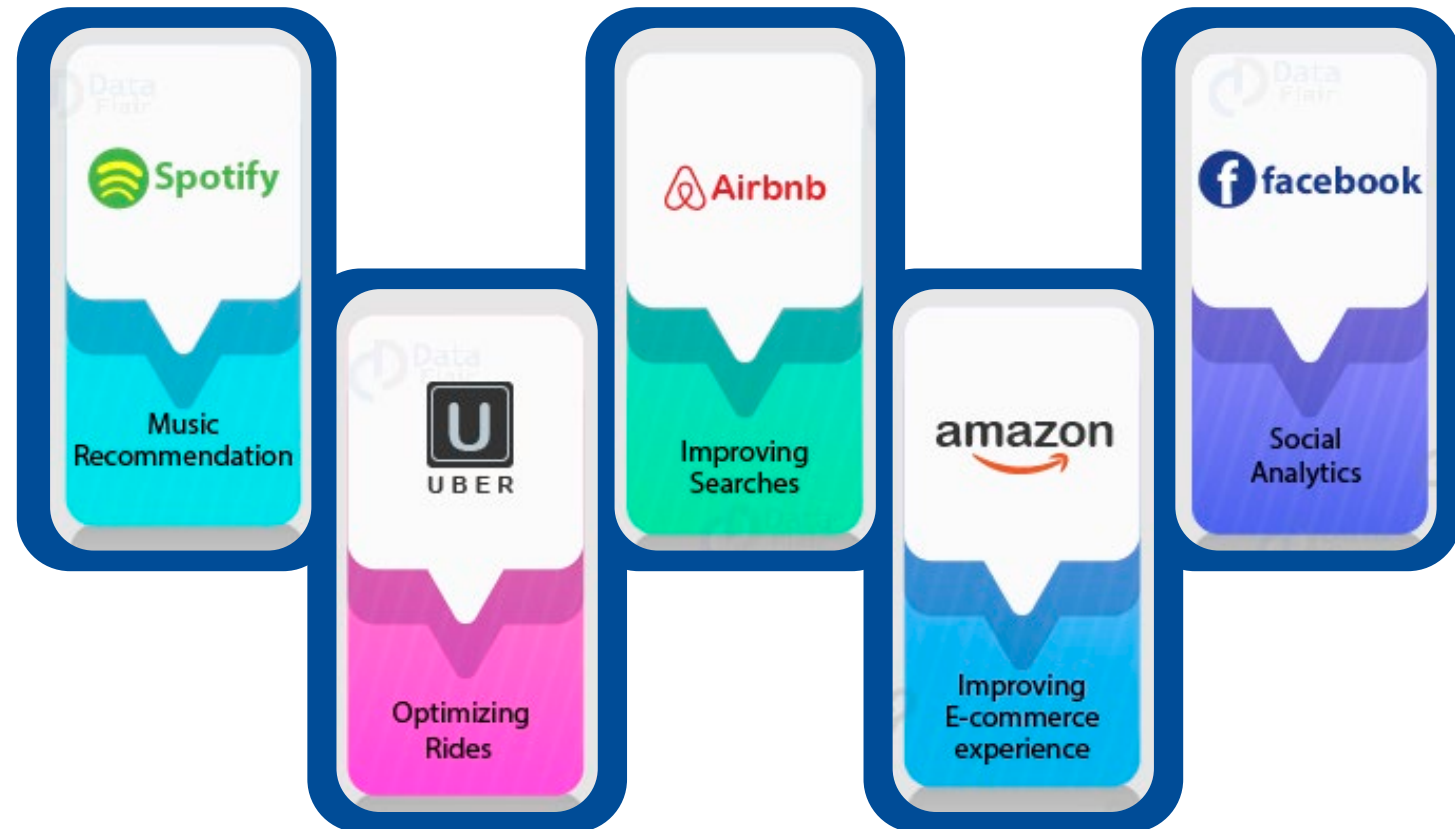
UNSUPERVISED

- Does not have labeled outputs
- **GOAL:** to infer the natural structure present within a set of data points



Examples of AI/ML in our daily lives

- **Targeting Customers**
 - Marketing Campaign
- **Predicting Events**
 - Fraudulent Credit Card Charges
 - Medical Diagnosis
- **Optimization**
 - Supply Chain Routes
 - Queues
 - Scheduling
- **Recommendations**
 - Online Retailer



Leveraging AI/ML in the finance function

Sample use cases



Risk Management: NLP capabilities can **interpret thousands of contracts or deeds**, extract key terms and compile and analyze that information **to perform risk assessments or other functions.**



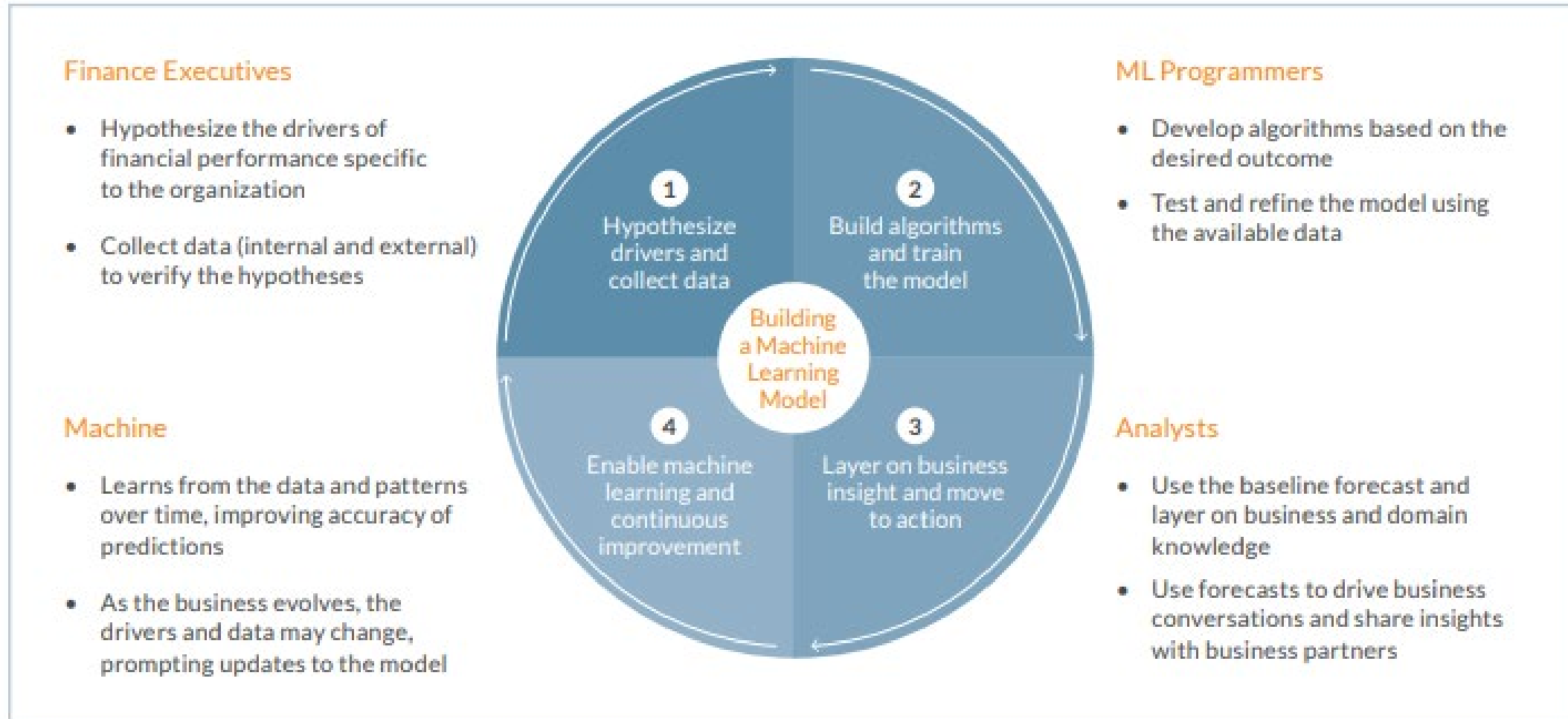
Compliance & Controls: AI can drastically reduce the time it takes to **identify noncompliance issues in finance data.** Purchase orders, employee receipts, travel bookings and credit card transactions are automatically scanned for purchases made outside of policy — enabling auditors to quickly right the error and **help enforce corporate policies to employees.**



Pricing technology powered by machine learning and dynamic pricing science gives manufacturers the tools to **adjust prices to market performance in real-time.**

Leveraging AI/ML in the finance function

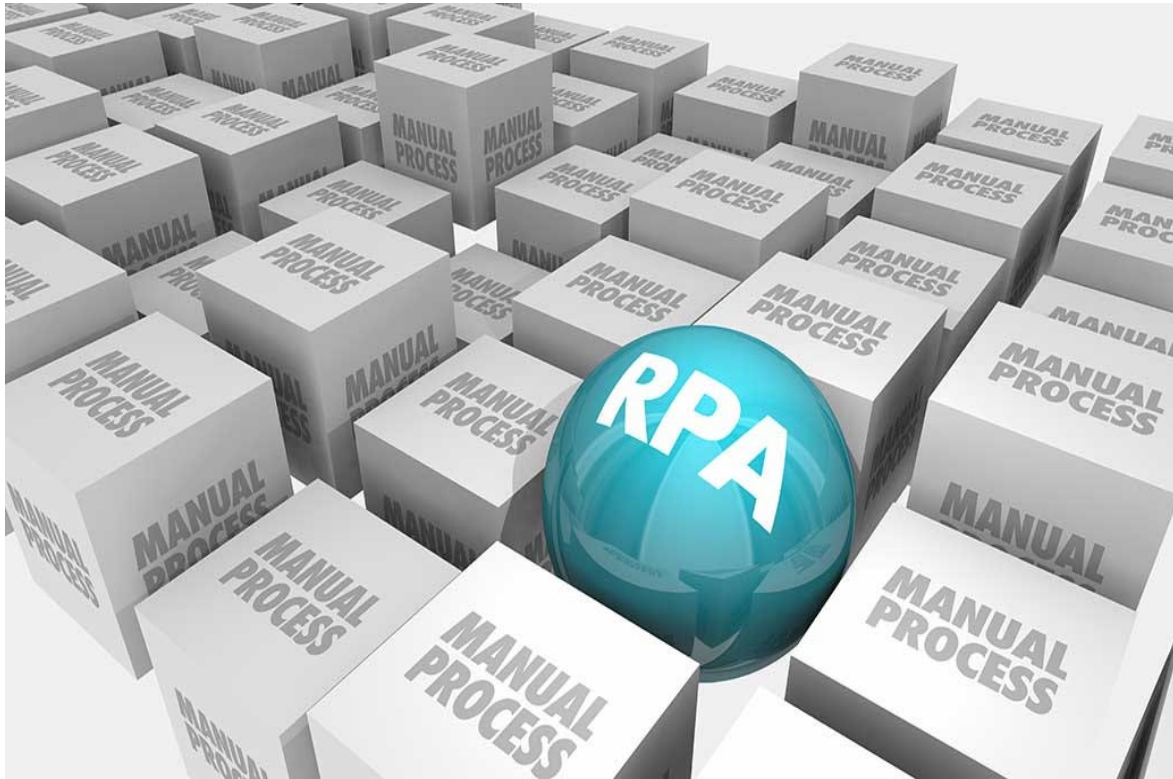
Machine learning applied to Financial Forecasting



3. Robotic Process Automation (RPA)



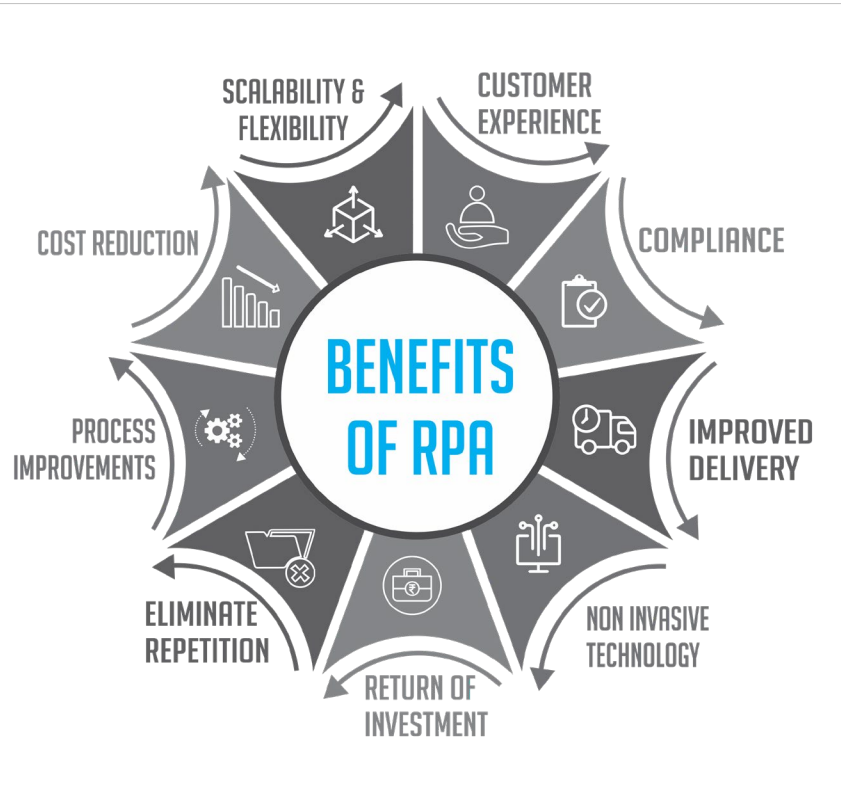
RPA automates the foundation



RPA Capabilities



Robotics applied within Finance



Benchmark benefits of introducing RPA into finance

Manual processing with little subjective judgment (e.g. general ledger inputs to consolidation reporting package)		FTEs reallocation and reduction
Increased subjective judgment	Business Rules Applying business rules (such as accounting bookkeeping principles, amortization themes and cost reallocation) on the basis of formalized principles and guidelines	20%-40%
	Reporting and Dashboard Implementing dashboards and generating reports	30%-60%
	Data Quality Management Measuring data quality and testing consistency (e.g. batch monitoring, availability and integrity check)	Control quality improvement 60%-80%
	Reconciliation Understanding and combining data retrieved from several applications (e.g. cash reconciliation, P&L reconciliation)	40%-60%
	Data Output Sending data obtained from the execution of the process w/ pre-defined format and distribution channels (email, file transfer, web-based, etc.)	50%-70%
	Data Input Extracting data from several applications & reading emails, files, and folders, etc.	60%-80%
Strong judgmental activities, multiple and ad-hoc analysis or reports E.g. analytical reporting to management		

RPA use cases in the finance function



Bank Reconciliation: auto account login; cross-reference balances of bank to GL; prep of bank reconciliation statement



Sales Ordering & Invoicing: auto entry of sales inquiries; customer master data fill-in; initiation of delivery process and updating of inventory records; posting of revenue



Fixed Asset Management: acquisition of quotes; fixed asset budget prep; fixed asset register reconciliations; prep of additions and disposals reports

RPA use cases in the finance function



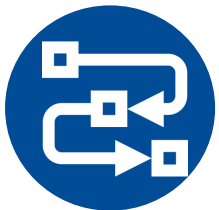
Inventory Management: verification of inventory received; 3-way match; automated shipping



Receivables Management: monitoring of receivables; auto-reminders for past-due balances; calc of provision of debts; posting of JEs



Payables Management: payment validation; payables listings; outstanding balance monitoring; prep and posting of year-end adjustment



Financial Close: calc and post of exchange gain/loss entries; fair-value adjustments & entries; statements & ratio analysis

Case Study: RPA closing the SAP AP automation gap

THE PROBLEM

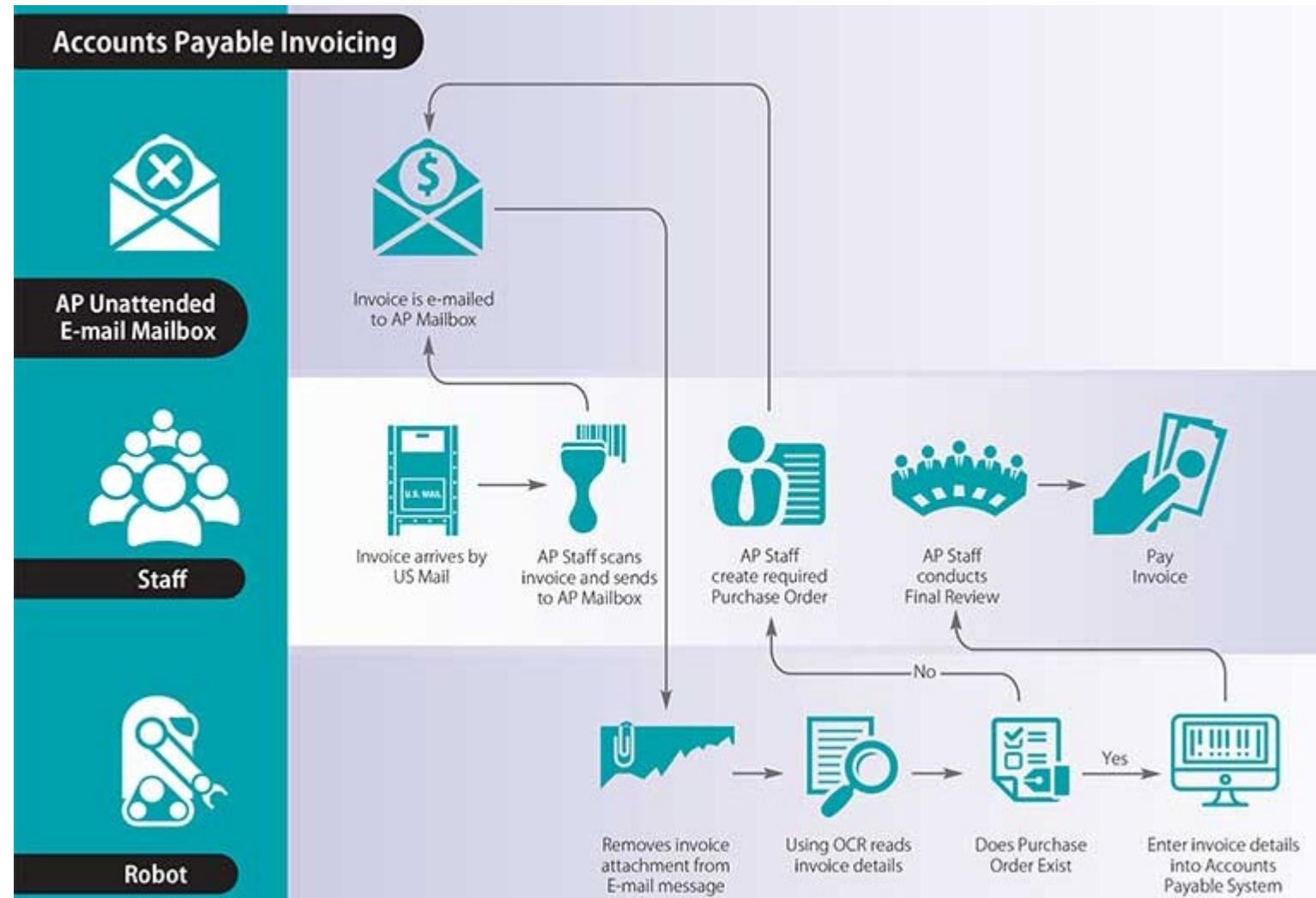
- ~2k invoices / day needing data validation from legacy systems before posting to SAP
- Integrating legacy technologies with SAP was cost-prohibitive

THE SOLUTION

- Determined RPA / robots could give them more cost savings and a better scalability when invoice volumes spiked
- Robots extract invoices from a mailbox and place them into a work queue where they're registered and indexed with SAP
- Once indexed, robots perform required validations by cross-checking the invoices against legacy systems
- Finally, business rules tell robots to post, park or block the invoice

THE RESULTS

- Accuracy is 95+%; cycle times are 3x-4x faster and cost savings are >70%
- Nearly eliminated human activity from AP process



4. Digital Transformation of Tax



Key trends impacting the Tax function



Digital Tax administration

Tax authorities are going digital



Technology wave

Emergence of new technologies and businesses adopting digital strategy



Transforming tax policies

Evolving legislative landscape demanding increased transparency and compliance

"E-file" Level 1	"E-accounting" Level 2	"E-match" Level 3	"E-audit" Level 4	"E-assess" Level 5
Use of standardized electronic form for filing tax returns required or optional; other income data (e.g., payroll, financial) filed electronically and matched annually	Submit accounting or other source data to support filings (e.g., invoices, trial balances) in a defined electronic format to a defined timetable; frequent additions and changes at this level	Paradigm Shift	L2 data analyzed by government entities and cross-checked to filings in real-time to map the geographic economic ecosystem; taxpayers receiving electronic audit assessments with limited time to respond	Disruption
				Government entities using submitted data to assess tax without the need for tax forms; taxpayers allowed a limited time to audit government calculated tax

The changing tax ecosystem

Historical Approach

- Given limited ERP tax functionality, tax professionals use spreadsheets with version control
- Significant manual effort with limited controls or auditability
- Inherent risk around inconsistencies, tailored calculations, data manipulation and versioning
- Undefined inputs/outputs and unclear roles & responsibilities



Future Approach

- RPA to drive efficient data flow across all tax processes
- Meeting e-assess and e-audit requirements of local tax authorities
- Immediate data transparency, including real-time monitoring
- Instant and accurate dashboard management reporting
- Flexible self-service reporting, with routine query handling (chat bot)

How Digital will start impacting Tax



RPA for data-gathering, adjustments, reconciliation, and processing



OCR to convert source files and generate jurisdiction-specific adjustments



AI/ML to automatically categorize expense data to support partial exemption calculations

5. Cloud Modernization of the Core



The Journey is inevitable

ERP
Journey
to Cloud



- Legacy, on-prem solutions are going away (usually highly customized)
- Cloud offerings will be the new norm (highly standardized)
- Cloud finance applications and microservices will dominate

Lessons learned from recent Cloud ERP implementations



It's not a migration. It's a re-implementation.



Spend the time upfront to do a full fit-gap analysis.
Understand product maturity at a granular level.



Don't underestimate the value or complexity of customizations.



Don't be afraid of a coexistence strategy. "Big Bang" is a recipe for disaster.



Place your bet at the right time. Maximize leverage with your ERP provider while minimizing risk.

Things to consider for your Cloud ERP implementation



Get the house in order

Data, processes, governance,
standards, policies

- Clean up your master data as much as possible.
- Simplify data and processes where feasible.
- Question the status quo – particularly when the process or technology solution seems overly complex.
- Standardize processes across the organization.



Plan for the journey

Key considerations include scope,
governance, and tolerance for
customization vs. standardization

- Determine which capabilities you will shift to the Cloud.
- Identify any third-party bolt-on applications that will stay.
- Develop a detailed work plan and resourcing model. Ensure you have properly resourced the effort.
- Determine the optimal implementation path and coexistence strategy.
- Lay out a plan for navigating the constraints of close/forecasting cycles.

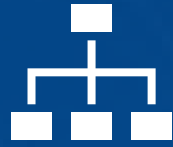


Key questions to ask SAP

Ask all the hard questions before you
begin your Cloud journey

- What is the best S4/HANA upgrade path? Show us successful case studies.
- Where do you typically see the most need for customizations?
- What is your detailed product roadmap for the next 18 months?
- What does your upgrade/update process look like?
- What are the downstream impacts to integrations and analytics?

Parting Thoughts: A few tips for the journey



SET UP YOUR TEAM EFFECTIVELY



UNDERSTAND YOUR TECHNOLOGY CHOICES



KEEP IT SIMPLE & REDUCE CUSTOMIZATIONS



MANAGE EXPECTATIONS & FAIL FORWARD



COMMUNICATE PROFUSELY



CHOOSE YOUR RESOURCES WISELY



INVEST IN CHANGE MANAGEMENT



WRESTLE THE DATA MIGRATION



DRIVE ACCOUNTABILITY & OWNERSHIP



DEVELOP INCREMENTALLY

Questions?

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THIS SESSION!

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