

FIVE STRATEGIES EVERY CFOS CAN TAKE NOW TO IMMEDIATELY IMPACT WORKING CAPITAL AND THE BOTTOM LINE

Panel of Financial and Business Consulting Experts Provides Advice to Quickly Gain Greater Control of Spending and Sustainably Lower Costs at Global 2000 Companies

Burlington, MA – April 16, 2009 – A panel of financial and business consulting experts that have worked and consulted with leading *Fortune 1000* companies offered their advice to CFOs and senior financial executives on actions to take to gain greater control over spending and to lower costs in the current economic environment. The panel discussion was sponsored by [Emptoris](#), a leading provider of enterprise spend and contract management software.

“Current economic conditions and a tight credit market are driving CFOs to step-up efforts to preserve cash, control spending and reduce costs. In parallel, there are increased risks associated with cash management, supplier and vendor failures, and fluctuating costs,” said Robert A. Rudzki, co-author of the book “*Straight to the Bottom Line*®,” and President of the management consultancy Greybeard Advisors LLC (www.greybeardadvisors.com). “There are too many examples of companies that have tried the ‘quick and dirty’ approach to cost reduction, only to find that their wins were not sustainable over time. Financial managers need to think strategically to ensure meaningful, effective action with sustainable results.”

The panel of experts discussed current trends in cash management, cost reduction and technology, and examined the “lessons learned” from the last economic downturn and recovery. The panel included senior financial executives from *Global 2000* companies, leading business and financial consultants, as well as several book authors who have written about financial management and technology. The panel focused on examining strategies for cash optimization, cost reduction and risk management, among other areas. The “Five Strategies” the panel recommended are:

1. **Securing and Preserving Cash:** Leveraging Often Overlooked Opportunities in Accounts Payable and Inventory Management;
2. **Getting Costs Down:** Procurement Excellence as a Key Factor in Reducing Costs in a Sustainable Manner;
3. **Reducing Risks in a Risky Environment:** Developing and Managing Key Risk Indicators (KRIs);
4. **Getting True Visibility Into Corporate Spending:** Fortune 1000 Companies Often Operate in the Dark;
5. **Stopping a Thousand Leaks:** A Commitment to Active Compliance Can Impact the Bottom Line

“The current economic environment presents a number of challenges, but also presents opportunities. This is a time when companies often reshape their processes and focus on areas within their control, such as spending and working capital management. As we adapt to become more efficient, it’s important that the strategies we implement today will be sustainable and lead to a stronger company tomorrow,” said Vincent Donargo, Senior Vice President, Chief Accounting Officer and Controller with Brightpoint, Inc.

1. Securing and Preserving Cash

– Opportunities in Accounts Payable and Inventory Are Largely Untapped

Financial experts emphasize, this is not just a recession, it's a recession with an underlying credit crisis. As a result, companies are working overtime to secure access to capital and preserve their cash on hand. Companies are particularly focused on reducing working capital requirements to minimize reliance on bank borrowing. Experts point to the timing of accounts payable and accounts receivable as a significant area where cash can be taken out of the system. Further, the panel said that efforts in the areas of reducing salary/labor costs and controlling employee benefit costs tend to be "well tapped" or mature efforts at *Global 2000* companies; whereas the opportunities for cash savings and preservation in accounts payable and inventory management are largely untapped or unfulfilled.

"A quick analysis of a company's DPO, days payable outstanding, in comparison with industry peers, often reveals a high potential to reduce working capital requirements and preserve cash. Take a manufacturing company, per every billion of spend there is typically \$50 million of extra spending on expedited accounts payable. For a \$10 billion company that is potentially \$500 million in cash preservation just in accounts payable," said Kris Timmermans, Managing Partner of the Global Sourcing & Procurement practice at Accenture.

2. Getting Costs Down

– Sustainability is Key, Procurement Excellence Holds Significant Opportunity

Of course, in every CFO's job description today is to "cut costs!" Failure to do so rapidly and effectively can completely dilute margins. Companies typically turn to big budget items, such as salaries, and non-essential budgets such as travel and certain marketing expenses, as first and primary targets for reduction. Experts caution to get costs down in an "intelligent and strategic" manner, noting an array of errors that were made in the last recession by "cutting too blindly, and damaging important employee, supplier and customer relationships." Financial experts say an oft under-valued means of reducing costs is in direct and indirect procurement. Detailed analysis by leading research firms report that at least 5% to 10% of total spending can be taken out within one year without touching non-working capital with a mature or "best-in-class" procurement organization. With an "accelerated procurement transformation" analysis suggests that companies can reduce spending costs by as much as 15% in two years.

"Companies need to focus on what they can control – and getting costs down is key in this regard. You don't have as much control over revenues. Beyond the typical methods, I think the role of corporate procurement is one of the most effective means for reducing costs. Bluntly, most CEOs and CFOs do not appreciate the sheer magnitude of what is possible with a modern, strategic procurement department. Once they realize the opportunity is that big, they are willing to give procurement a seat at the table and make an investment in best-in-class procurement professionals, processes and technology," said Rudzki, who is a former senior financial executive and Chief Procurement Officer.

The panelists noted sourcing software solutions, which began as simple reverse auction tools in the late 1990s, have evolved considerably in the past decade. According to Forrester research, with hundreds of features, best-of-breed sourcing solutions "do much more than merely automate the sourcing process, by combining greater transparency with better optimized analysis of complex bids, they enable buyers to achieve far greater savings than could achieve with traditional manual methods." Research demonstrates that sourcing software can help companies generate sustainable savings, on average, of 7% in spend categories commonly sourced.

3. Reducing Risks in a Risky Environment – *Developing and Managing Key Risk Indicators (KRIs)*

Financial and business experts caution that companies in general have done a poor job of identifying and mitigating risks. In a recession, with a rush to cut costs and a risky environment overall, risks increase exponentially.

“In a good economic environment errors can be costly, in a bad economic environment errors can be fatal,” said Rudzki, who also authored *“[Beat the Odds: Avoid Corporate Death and Build a Resilient Enterprise.](#)”* “Companies need to constantly be asking themselves, ‘How do I take short term actions that ease my cash and cost concerns without hurting the company in the long term?’ There are too many examples of companies that have tried the ‘quick and dirty’ approach to cost reduction, only to find that their wins were not sustainable and brought about greater risk. The decisions companies make today will impact how they are operating in a year or two years time.”

“When you lay out price evolution for the last 40-50 years for your 10 most important commodities, whether purchased directly or as key commodities for your components, you see one key trend: higher volatility. Minimizing the impact of this volatility on your company’s financial performance will become *the* key challenge for most procurement and finance functions. They need to make important upgrades in skills, organization set-up, access to market intelligence and tools to address this challenge,” said Kris Timmermans of Accenture.

4. Getting Real Time Visibility Into Corporate Spending – *Fortune 1000 Companies Operating in the Dark without Spend Visibility*

Just a fraction of Fortune 1000 companies have current, accurate visibility into their spending. Experts say the first step to better managing corporate finances is to have clear, accurate, and current spend visibility. Good spend visibility enables smarter strategies for cash management and cost reduction. The good news is, gaining global enterprise visibility into spending is much easier now than it was even a few years ago. With software programs or outsourced aggregation of data, companies can get a current, enterprise-wide view into spending detailed by category and operations. For relatively minimal costs, it is realistic today to have monthly spend visibility company-wide.

“How can you control spending when you don’t even know what you’re spending? Most *Fortune 1000* companies do not have a 360-degree real time view into their spending. The average CEO, CFO and CPO are typically looking at division or departmental spend data which is often badly out-dated. It’s their dirty little secret,” said Kirit Pandit, author of *“[Spend Analysis: The Window into Strategic Sourcing.](#)”* “Companies have long been shackled by the dispersed and disparate nature of their spend data. It’s stuck in dozens of different systems and departments around the globe. However, today there are software tools and outsourced processes that can be used to give a current, consolidated view of spending, and it’s really unacceptable in this environment not to be giving your company that view.”

Pandit notes that leading spend analysis software technologies can aggregate data from over two dozen different systems, including every major ERP platform, and can analyze and drill down on spending along dozens of different dimensions including by commodity, cost center, GL account, geography, time, payment terms, and more.

5. Stopping a Thousand Leaks

– A Commitment to Active Compliance Can Impact the Bottom Line

Although great gains have been made in controlling and even reducing costs in recent years, particularly with the application of technology, outsourcing and Low Cost Country Sourcing (LCCS), there is still significant leakage and wasteful spending at the average *Global 2000* company. One of the biggest areas of loss for companies is in non-compliance to existing contracts. Whether it's enforcing negotiated pricing, realizing quantity discounts or ensuring quality standards and associated penalties and discounts, spend and contract compliance becomes even more essential in a recessionary environment.

"Companies often do a solid job of identifying savings opportunities, however it is in regulating and enforcing compliance to those savings where they often breakdown. Technologies such as contract management software can help companies proactively enforce and ensure compliance," said Anuj Saxena, author of the book, *"Enterprise Contract Management: A Practical Guide to Successfully Implementing an ECM Solution"* and a Project Executive with IBM Global Business Services.

Saxena and Pandit emphasized that the application of technology takes an impossible task and makes it manageable. Spend analysis helps with identifying savings opportunities, sourcing software with getting reduced prices in those categories, and contract software with enforcing spend guidelines and savings. Such a holistic approach that can reap significant new savings.

The "Five Strategies for CFOs" Panel

The panelists participating in the development of the "Five Strategies for CFOs" included **Vincent Donargo**, Senior Vice President, Chief Accounting Officer and Controller with Brightpoint, Inc.; **Robert A. Rudzki**, co-author of the book *"Straight to the Bottom Line"* who has held various executive management positions in finance, accounting and procurement; Kirit Pandit, author of *"Spend Analysis: The Window into Strategic Sourcing"* and consultant who has implemented numerous spend programs at *Global 2000* companies; **Anuj Saxena**, author of the book, *"Enterprise Contract Management: A Practical Guide to Successfully Implementing an ECM Solution"* and a Project Executive with IBM Global Business Services; and **Kris Timmermans**, the Managing Partner, Global Sourcing & Procurement practice with Accenture. **John Belchers**, who has served as CFO at four publicly-traded companies including Gensym Corporation and Microprose, Inc., and currently serves as CFO at Emptoris, Inc., also contributed to the discussion. The panel discussion was sponsored by Emptoris (www.emptoris.com), a leading provider of enterprise spend and contract management software.

About Emptoris

Emptoris is a world leader in innovative supply and contract management software solutions that empower enterprises to realize best value and accelerate profitable growth. Emptoris solutions are used by successful *Global 2000* companies in every industry. Emptoris sourcing spend analysis and contract management solutions are consistently recognized by leading independent analyst firms as the market's leading solutions. Most recently, Emptoris was positioned as in the "leaders quadrant" in the Gartner research report, "Magic Quadrant for Sourcing Application Suites, 2008" – and received the highest score for "Current Product Offering" in "The Forrester Wave: Contract Life-Cycle Management, 2008." Emptoris customers include American Express, Boeing, ConocoPhillips, GlaxoSmithKline, Kraft, Motorola, Owens Corning, Syngenta, and Vodafone.