Tech Sector Finance Benchmarking Prism

Membership Overview

August 2015
Business model shifts are putting pressure on Tech Finance executives to adjust or even re-build a flexible finance function to deal with issues and challenges.

**Tech Finance Executive Challenges**

- Regardless of organization size, Technology executives leading business functions, such as finance, have to be prepared to invest or cut costs as needed to keep the business running efficiently.

- But what does the cost and staffing structure of an efficient, nimble finance function look like in this new tech landscape?

<table>
<thead>
<tr>
<th>Tech trends / challenges</th>
<th>Implications</th>
<th>Executive questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shift to consumption-based billing</td>
<td>Increased cost of finance</td>
<td>How much are peers spending per transaction and on technology to support finance?</td>
</tr>
<tr>
<td>Continuous business model adaptations and launch of new products</td>
<td>Need for additional staff</td>
<td>Can the finance org be readily adapted to a “new normal”?</td>
</tr>
<tr>
<td>Use of new technology in finance</td>
<td>Changes to accounting policy</td>
<td>Is there over or under-investment in critical processes?</td>
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<tr>
<td>Request for business partnering</td>
<td>Different support model, i.e. no longer relying on IT for on premise solutions</td>
<td>What types of leading practices are peers adopting?</td>
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<tr>
<td>Cost cutting</td>
<td>Need for scalability</td>
<td>What KPIs should the finance function use?</td>
</tr>
<tr>
<td>Automation of base accounting</td>
<td>Higher focus on strategic processes</td>
<td>Where are the opportunities to minimize OpEx and optimize CapEx?</td>
</tr>
<tr>
<td>Globalization</td>
<td>Uncertainty of function needs in rapidly changing environment</td>
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</tbody>
</table>

Regardless of organization size, Technology executives leading business functions, such as finance, have to be prepared to invest or cut costs as needed to keep the business running efficiently. But what does the cost and staffing structure of an efficient, nimble finance function look like in this new tech landscape?
Deloitte’s Tech Sector Finance Benchmarking Prism is a membership that can provide executives with relevant peer comparisons to support growth & process improvement

Membership Features

- **Tech Sector Finance Benchmark**: This leading process benchmark produces more than 130 performance measures that identify key finance cost and drivers

- **dataLab (dLab)**: dLab is the access point for the Cost Gap Heat Map. This online, interactive, data visualization tool is designed to help executives:
  - Compare their benchmark and survey data against selected groups of peer organizations
  - Formulate action plans to support strategic objectives

- **Annual topical survey**: These short qualitative surveys address key Tech Sector business topics and challenges

- **Annual virtual event**: Each virtual event is an opportunity for executives to gain insight on current industry trends and challenges supported by recent benchmark and survey data
This data-centric membership can help executives identify and prioritize improvement areas and understand how performance measures align to organization strategy.

Example: Benchmarking Prism identifies lower usage of a Shared Service Center

- As an example, with the uncertainty of future technologies and their effect on finance, finance executives can leverage the membership features to help determine if they have the right service delivery model to be competitive.
- The Tech Sector Finance Benchmark identifies a $3.71M cost opportunity in transaction processing.
- The Cost Gap Heat Map reveals the accounts payable process cost is $1.1 million more than the selected peer group (Technology Overall Low Cost Performer).
- Using the Cost Gap Heat Map to add the additional peer group of Technology Overall Top Decile, further drill down shows:
  - The company’s accounts payable cost per vendor invoice is considerably higher than both peer groups.
  - ABC Company also utilizes a shared service center for invoice processing significantly less than their peers.

- If ABC Company executives have the goal of reducing cost, they now have an understanding of:
  - The amount they are overinvested
  - The cost drivers
  - How peers are operating at lower cost.
The membership features can also provide executives with the proprietary data needed to understand how their counterparts are dealing with industry challenges.

Example: Benchmarking Prism indicates need for more strategic-minded focus

- As an example, while examining improvement areas, finance executives can leverage the membership features to identify the ways they can be adaptable to new environments
  1. The Tech Sector Finance Benchmark identifies a ($2.44M) cost opportunity in performance management
  2. The Cost Gap Heat Map reveals ABC Company spends less in strategic performance management processes such as budgeting, forecasting and business financial analysis than the selected peer group (Software Low Cost Performer)
  3. Using the Cost Gap Heat Map to add the additional peer group of Overall Technology Low Cost Performer and conduct further drill down shows
     - In business financial analysis lower spend is driven by having fewer staff than their peers
     - Relative to their peers, far less of ABC Company’s business financial analysis is focused on forward-looking actions and plans

- If ABC Company executives want to focus more attention on strategy to stay competitive and better prepare for industry shifts, they now have an understanding of
  - Where they are under-invested compared to peers
  - The amount they are under-invested
  - How much more the competition is focused on forward-looking plans

![Performance management process cost as a percent of revenue](diagram1)

1. Performance management process cost as a percent of revenue
   - ABC Company: 0.37%
   - Tech Software LCP: 0.43%
   - Tech Software LCP: 0.43%, 0.02%

2. Cost Gap Heat Map
   - ABC Company: ($2.44M) gap to Tech Software LCP

3. Business & financial analysis staff per $1B revenue
   - ABC Co: 6.9
   - 2015 Tech Software LCP: 6.9
   - Tech Overall LCP: 6.4
   - Percent of performance reports and analysis focused on forward-looking actions and plans
     - ABC Co: 53%
     - 2015 Tech Software LCP: 87%
     - Tech Overall LCP: 56%
The cornerstone of the membership is the finance benchmark and resulting custom report that provides over 130 performance metrics compared to relevant peers

- The benchmark is organized by Deloitte’s Technology finance taxonomy, standard process and metric definitions based on where work is performed regardless of organization structure

- Deloitte’s structured approach enables consistent, relevant peer comparisons across collected data:
  - Cost, degree, distribution, leading practices, staffing, volume

- Deloitte utilizes a time-tested benchmark methodology, supported by proprietary web-based tools, that can help simplify data collection and confirm data adheres to the taxonomy

- Executives receive a confidential, executive-level custom report that:
  - Identifies and prioritizes potential improvement opportunities
  - Can provide the fact-based data and insight needed to understand
    - Cost reduction opportunities
    - Opportunities for investment
    - How finance function investments compare to peers, and what is driving the difference

<table>
<thead>
<tr>
<th>Function</th>
<th>Finance</th>
</tr>
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<tbody>
<tr>
<td>Process category</td>
<td>Transaction Processing</td>
</tr>
<tr>
<td>Process</td>
<td>Accounts payable</td>
</tr>
<tr>
<td></td>
<td>Accounts receivable</td>
</tr>
<tr>
<td></td>
<td>Billing</td>
</tr>
<tr>
<td></td>
<td>Collections</td>
</tr>
<tr>
<td></td>
<td>Credit</td>
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<td></td>
<td>Cost accounting</td>
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<tr>
<td></td>
<td>Fixed assets accounting</td>
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<td></td>
<td>Freight payable</td>
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<tr>
<td></td>
<td>Project accounting</td>
</tr>
<tr>
<td></td>
<td>Revenue accounting</td>
</tr>
<tr>
<td></td>
<td>Travel and entertainment</td>
</tr>
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</table>
dLab, accessible through a secure website, contains the online Cost Gap Heat Map tool that helps unlock the power of data with comparative analytics

- After completing the benchmark, executives can leverage this interactive visualization tool to compare their benchmark data against selected groups of peer organizations and statistical reference points to calculate cost gaps, showing where their costs are higher or lower
  - Peer group options include:
    - Tech Sector Overall
    - Tech Sector Software
    - Tech Sector Hardware
    - Tech Sector Large
    - Tech Sector Midsized
    - Cross-Industry
  - Statistical reference point options include:
    - High Cost Performer (HCP)
    - Median
    - Low Cost Performer (LCP)
    - Top Decile

- Additional refinement of these statistical reference points by process, geography, size, revenue, and other demographics enables more relevant comparisons, providing deeper insight into costs and performance

- By pointing and clicking, executives can further drill into areas of interest to see what is driving the cost differences and better understand potential improvement opportunities
  - In the example on the right, the $1.10M cost gap in accounts payable is driven primarily by staffing and productivity
A topical survey and virtual event take place each year to provide executives with additional insight into how peers are addressing industry changes and challenges.

**First Topical Survey – Spring 2016**

- Each survey focuses on a current hot topic in the Technology industry with questions intended to complement the benchmark data with qualitative insights and leading practices.
- Deloitte’s surveys are designed so most executives can answer all questions in approximately 20 minutes.
- Executives receive a customized survey report and new survey-based statistical reference points are added to the data visualization tools enabling additional benchmark data analysis.
- The survey topic is selected each year by member executives. Examples of some possible topics are:
  - Maturity of performance management capabilities
  - Uses of cloud-based automation in transaction areas
  - Usage and value of analytical tools in finance
  - Working towards automation of payables

**First Virtual Event – Winter 2016**

- The members-only, online event brings executives together for an interactive discussion on hot industry topics supported by recent benchmark and survey data.
- The event topics are selected each year by member executives.

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**Example of a survey question and associated display of responses**

**Q5**

For each item below, select what percentage best represents the level of achievement within the intercompany Management Program:

<table>
<thead>
<tr>
<th>Level of technology</th>
<th>0 - 25%</th>
<th>26 - 50%</th>
<th>51 - 75%</th>
<th>76 - 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralization/standardization</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of process &amp; standards documentation</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Level of process standardization</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>Level of automated capabilities</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
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<tr>
<td>Intercompany center of excellence</td>
<td></td>
<td></td>
<td>✓</td>
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**Degree of implementation**

- **Degree of process automation**: 16% Low, 32% Medium, 19% High, 32% High
- **Level of reporting capability**: 13% Low, 19% Medium, 29% High, 39% High
- **Degree of integration with other systems**: 16% Low, 16% Medium, 23% High, 45% High
- **Self-service / portal capability**: 13% Low, 5% Medium, 23% High, 58% High
- **Degree process accomplished with automated workflow**: 16% Low, 23% Medium, 29% High, 32% High
- **Degree imaging of electronic documents used in process**: 19% Low, 43% Medium, 31% High, 7% High

The star indicates ABC Company’s response.
**3-year Membership Features**

- Executives can benchmark their finance function two times over three years
  - Executives receive one customized results report per benchmark

- The annual topical surveys, addressing industry challenges, are designed so executives can complete them in approximately 20 minutes

- Executives have year-round program and data visualization tool accessibility, through a secure website, to conduct comparative analytics
  - Deloitte’s GBC team provides one day of annual onsite data visualization tool training (expenses not included)

- The annual, members-only virtual event is an interactive discussion on hot industry topics supported by recent benchmark and survey data
GBC is now selling memberships to the Tech Sector Finance Benchmarking Prism, do not miss the opportunity to be a part of this proprietary data community

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