GENPACT

CFO research services

A Measure of Success

GLOBAL PROCESS BENCHMARKING STUDY OFFERS INTELLIGENT INSIGHTS

This research brief is based on CFO Research's ongoing benchmarking study on business process performance at large companies around the world.

To participate in this study, executives have to meet several criteria: Finance executives must hold the position of chief financial officer, finance director, VP of finance, controller, or a similarly senior post. Procurement executives must hold the position of chief procurement officer, VP or director of procurement or supply chain management, or another high-level post in the procurement function.

All respondents must work for companies with $1 billion or more in annual revenue. North America, Asia, and Europe are each contributing approximately 30% of all respondents. And large companies from the full array of industries in the global economy—from manufacturing, consumer goods, and high tech to business services, financial services and wholesale/retail trade—are participating in this study. The result: a peer-based assessment of companies' performance on and aspirations for their core finance and procurement processes.

CFO Research and Genpact will publish the final results of this comprehensive research program in March 2012. For more information about this research project, contact Sam Knox at CFO Research (samknox@cfo.com) or Subroto Gupta at Genpact (subroto.gupta@genpact.com).

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WHAT IS THE MEASURE OF success? For enterprises, answers to this question are abundant. EBITDA, EPS, net margin, ROA, ROIC, free cash flow—these metrics and others are useful measurements of a company's success in turning capital into returns for investors. They certainly provide valuable insight into output, growth, capital efficiency, and financial health. But do these metrics and their variants tell a complete story of enterprise performance that is useful to managers in their efforts to generate additional value? What can managers discover by looking more closely at the financial and administrative processes through which their companies' business plans and operating activities are converted to cash and reported to the world?

At CFO Research, we believe that well-managed, high-performing financial and administrative processes are not just marks of integrity, efficiency, and management discipline, but also among the fundamental measures of company health. That's why we set out with Genpact, our collaborator and research underwriter, to capture benchmark performance data from senior finance executives at large companies around the world on four fundamental business processes: financial planning, procure-to-pay, order-to-cash, and financial reporting.

Through these four processes, companies plan their activities and direct resources to meet objectives; conduct the transactions that convert expenditure into free cash flow; and report their results to those who will evaluate their performance and decide whether their strategies warrant further investment. Managing these four processes well creates a strong framework for business activity. Managing them poorly wastes capital, time, effort, and managerial attention—and brings on a host of financial, operating, and compliance risks. Accordingly, we should consider companies' performance on these processes as important gauges of enterprise-level performance.

Through this research, we've found that more than 60% of finance and procurement executives agree strongly that improving their administrative process performance would yield meaningful financial benefit to their companies. Only one-third, however, makes extensive use of external benchmarks to assess their performance. Thus, executives interested in improving their processes often face an information deficit on their peers' performance. We're using this data, along with the findings from a series of interviews with well-qualified senior executives, to assemble a comprehensive set of performance benchmarks that will help executives to evaluate their own companies' performance, question their assumptions about what is achievable, and make plans for improvement. On the reverse of this page, we offer early insights on our findings on each of the four processes examined in this study.

How does your company compare?

In an effort to gather definitive data on process performance, CFO Research is surveying senior executives in finance and procurement at large enterprises around the world. This pan-industry, global data reveals what's achievable, as well as the performance of those at the top of the class, in the middle, and among the laggards.

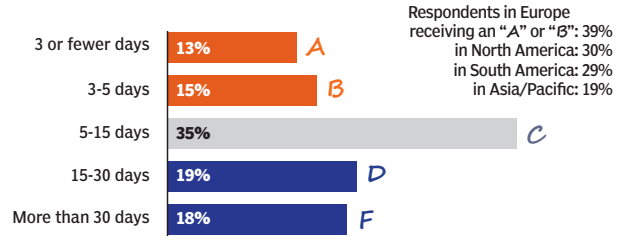
We offer several questions here for your consideration:

» How would *you* define the top of the class, the middle, and the laggards?
» Do you have a clear sense of *your own company's performance* on these metrics?
» How does *your organization* fare against these standards and in comparison to its peers?

A = Excellent B = Good C = Adequate D = Cause for concern F = Needs attention

I. WORKING DAYS TO COMPLETE A REVENUE FORECAST

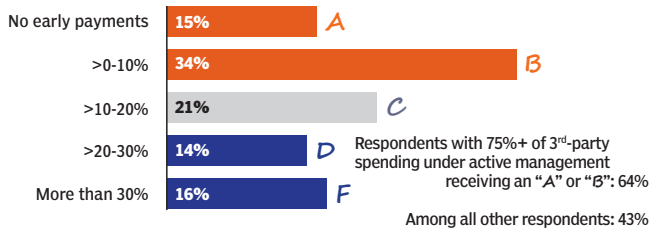
Those at or near the top of the class are able to prepare a revenue forecast within one week, but nearly 40% require three weeks or more.



Sources say that while technology plays a role in forecasting speed and accuracy, so too do organizational silos and reliance on highly manual, ad-hoc processes for this most difficult and judgment-oriented management discipline.

II. PERCENTAGE OF PAYMENTS MADE EARLY

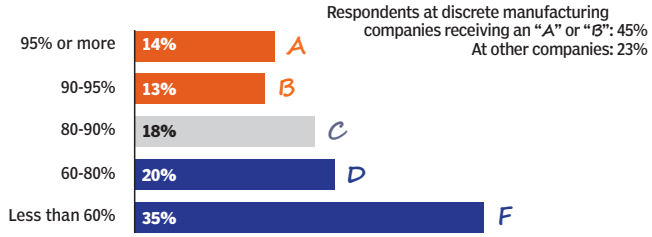
Strong performers make 10% or less of their payments before they're due. Nearly one-third of respondents make 20% or more of their payments before they need to.



Top performers may well seek to make some payments early in an effort to support weaker suppliers. Those who make 20% or even 30% of their payments ahead of schedule are likely to have a payment-control problem, which affects working capital and regulatory compliance, among other matters.

III. PERCENTAGE OF ANNUAL SALES COLLECTED WITHIN CONTRACTED PAYMENT TERMS

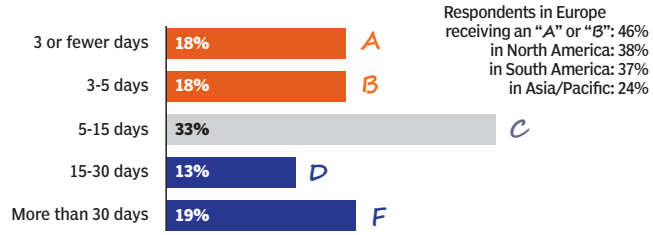
While strong performers collect 90% of sales within contract terms, more than half of respondents end up compromising frequently on timing or another dimension of accounts receivable.



The lowest performers—which collect within contract terms in 60% of cases or fewer—may well risk cash-flow distress, insolvency, and control problems that call for CFOs' close attention.

IV. WORKING DAYS TO COMPLETE QUARTERLY CONSOLIDATION AND GROUP CLOSE

Top performers complete their consolidation and close at the group level within one week.



Companies that have especially complex operating and process profiles—as indicated by having many distinct charts of accounts—take longer, on average, to complete their quarterly consolidation and group close.

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Genpact is a global leader in business process and technology management, offering a broad portfolio of enterprise G&A and industry-specific services. Putting process in the forefront—coupling deep process knowledge and insights with focused IT capabilities, targeted analytics and pragmatic reengineering—the Company delivers a comprehensive client solution. Services are seamlessly delivered from a global delivery network to meet a client's business objectives, cultural and language needs, and cost reduction goals.