State of Colorado Finance Benchmark

The Hackett Group
Proven Best Practices Backed by Empirical Data

Hackett-REL
Total Working Capital

FINAL Presentation
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October 30, 2006

The Hackett Group
World-Class Defined.

Table of Contents

- Benchmark Overview
- Baseline and Summary Findings
- Comparative Process Analysis
- Technology Analysis
- Recommendations (Discussion)
- Appendix (Process Cost Gaps)

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Benchmark Overview

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Hackett's Finance Benchmark Focuses on Eight Process Groups that are Discretely Defined

Transactional	Compliance and Risk Management	Budgeting and Analysis	Management and Administration
◆ Cash Disbursements ◆*Accounts Payable* ◆*Travel and Expenses* ◆*Program Payables* ◆ Revenue Cycle ◆*Credit* ◆*Customer billing* ◆*Collections* ◆*Cash Application* ◆ Accounting and External Reporting ◆*Fixed Assets* ◆*Interfund/Interdepartmental Accounting* ◆*General Ledger Accounting* ◆*Project Grant and Cost Accounting* ◆*External Reporting*	◆ Treasury Management ◆*Cash Management* ◆*Capital and Risk Management* ◆ Compliance Management ◆*Regulatory Compliance and Auditing* ◆*Process Certification*	◆ Budget Preparation and Reporting ◆*Long Term Forecasting* ◆*Annual/Bi-Annual budgeting* ◆*Budget and Performance Reporting* ◆ Business analysis ◆*Department/Program Analysis*	◆ Finance Function Management ◆*Function Oversight* ◆*Personnel Management* ◆*Policy and Procedures Oversight*

** Detailed definitions were provided for each process grouping.

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The Scope of the State of CO's Finance Benchmark

- All agencies and departments were encouraged to participate in the Benchmark of Colorado's finance operations:
  - Ultimately 16 unique agencies and departments participated
- The time period from which data was collected was FY 2005 (July 1, 2004 thru June 30, 2005)
- Best practices and FTEs were captured as of June 30 2005
- State of Colorado was compared to Hackett's Large Consolidated database

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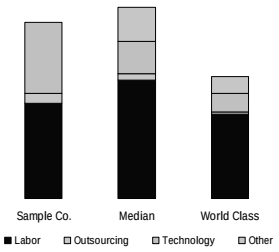
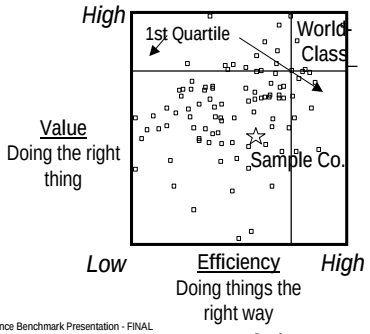
Comparisons of Benchmark Data

- **Median:** this comparison is against a cross-industry peer group based on complexity drivers
- **World-Class** was determined based on first quartile performance in both efficiency and effectiveness based on a consistent scoring methodology used for all participants
- **Cost gaps** were determined on a process cost basis





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Baseline and Summary Findings

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Overall Key Findings and Observations

Overall

- State of Colorado's finance cost as a percent of revenue/operating budget is 0.81%, placing it in the 3rd quartile of the peer group
- State of Colorado's resource allocation reflects a greater focus on transactional activities than World Class
- There are opportunities for State of Colorado to leverage Hackett Certified Best Practices

Process

- Transaction processing
  - Opportunity exists to reduce transactional process cycle times
  - The cash disbursement process has high process fragmentation, resulting in high costs. It also has high error rates. Staffing is fragmented across 15-odd locations, with an average of less than 7 FTEs per location
  - Revenue cycle has minimal automation, resulting in high error rates and high staffing.
  - Accounting & external reporting has low automation and takes a higher number of days to close the books
- Decision Support:
  - Complexity (number of line items) and low automation contribute to lower efficiency and effectiveness in Planning
  - The number of annual reports produced is minimal; however, there is a high utilization of online business performance reports
  - Analysts are positively spending more time on analysis and output quality is high

Technology

- Investment in technology is lower than Median or World Class levels
- Though the finance organization is on a common platform, no single application supports reporting needs
- Levels of integration vary across transactional processes and deployment of decision support tools is limited
- Spreadsheets are utilized to high degree as the sole application for the budget process

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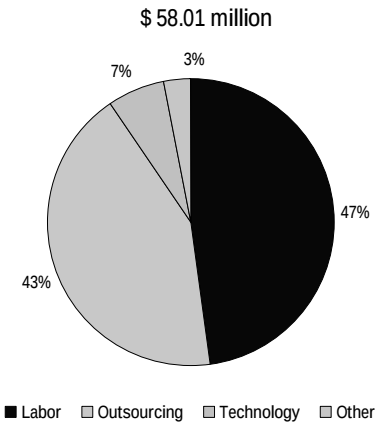
State of CO's Baseline Finance Cost is $58.0 million, which Represents 0.81% of Revenue/Operating Budget



Revenue = $ 7.1 billion

Other cost -- $ 1.7 million
- Facilities, travel
- Supplies, telephone

Technology cost -- $ 3.8 million
- Computer processing
- Maintenance

Outsourcing cost -- $ 24.84 million
- Outside services

Labor cost -- $ 27.65 million
- Wages (full-time and part-time)
- Overtime and bonuses
- Taxes and fringe benefits

Process cost
$ 52.49 million

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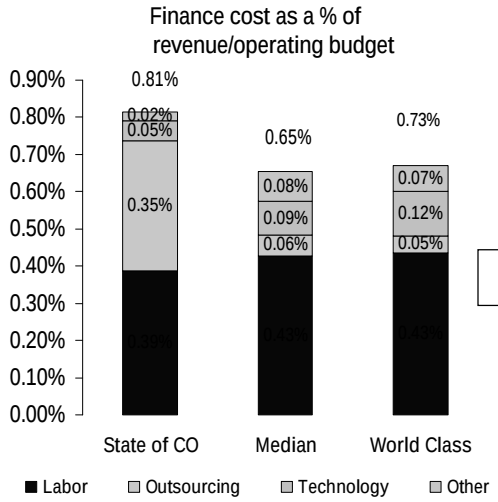
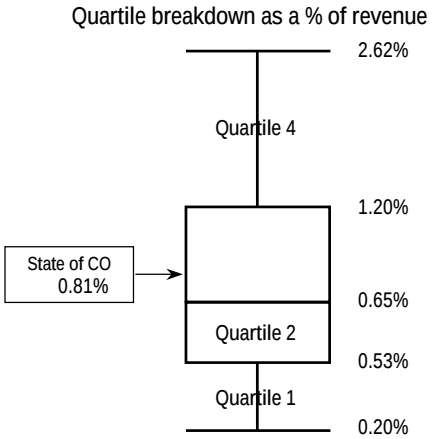
Finance Cost as a % of Revenue/Operating Budget Places State of CO in the Third Quartile of the Peer Group





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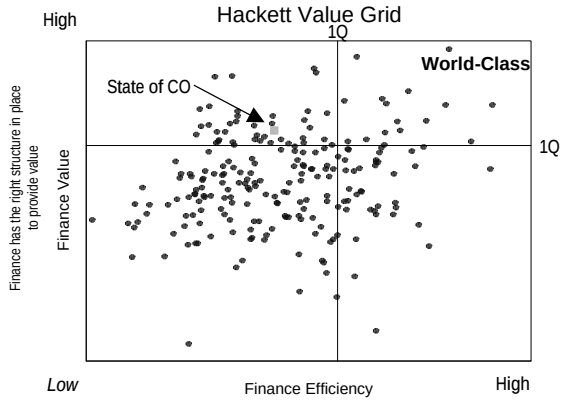
The State of CO has Achieved 1st Quartile in Effectiveness with Opportunities to Improve Efficiency



Key Effectiveness Drivers

+ Managers perform BPR online
+ Cost analysis provided on target
+ Company standard for data definitions and code standards
+ Time spent on Analysis instead of data collection
+ Involvement of treasury in the structuring and financing of large new program/service decisions
- Lower balanced scorecard usage
- Higher billing errors
- Little job rotation for career development
- Little use of online budgeting application
- Little use of non-financial measures
- Little use of data management and analysis tools

Key Efficiency Drivers

+ Cash disbursements automated
+ Days to Report
+ Cash Disbursement transactions per FTE
+ Low number of ERP applications
+ Total FTEs per Billion
+ Finance cost as % of Revenue
- Higher days to complete the budget
- Less cash transactions automated
- Longer days to Close
- Less integration between order entry/sales application and billing
- Less billing transactions automated
- Lower fixed asset integration with accounts payable
- Lower percent automated journal entries
- Higher Cash Disbursements costs as a % of revenue
- More days to prepare ad hoc business performance reports

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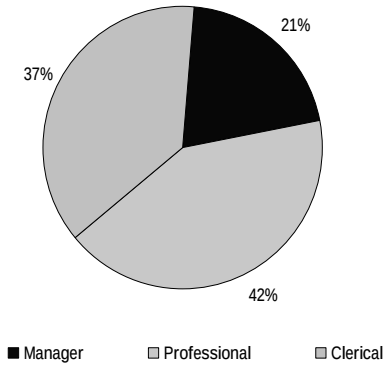
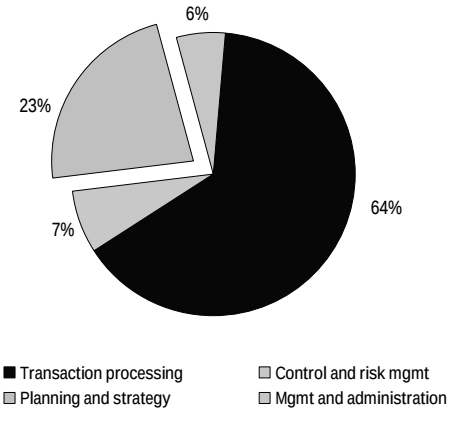
State of CO's Baseline Staff Mix and Resource Allocation of 415.7 FTEs

Estimated staff mix



Resource allocation



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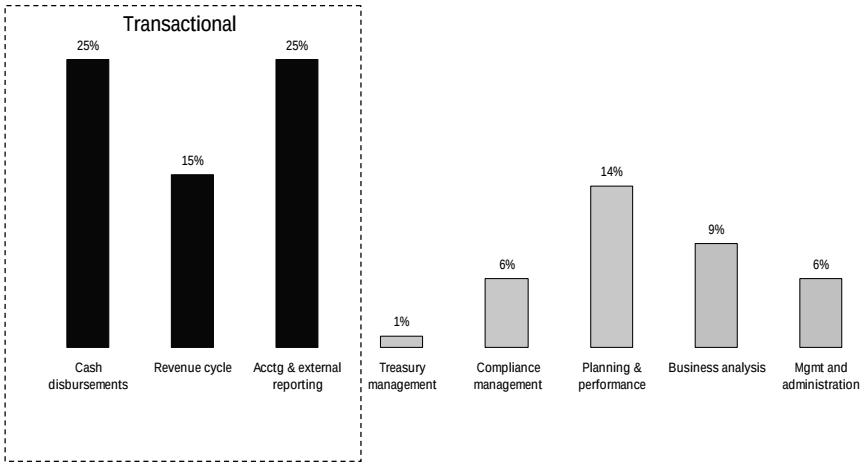
The State of CO Allocates 64% of its Finance Staff Time to Transactional Activities



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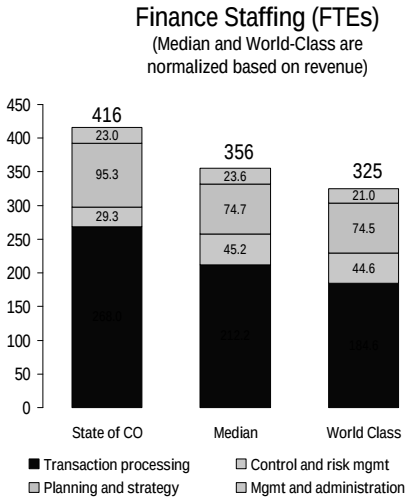
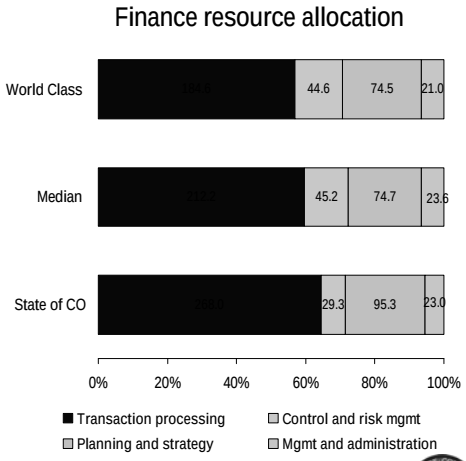
State of CO's Staffing Levels in Transaction Processing Exceed World Class Levels





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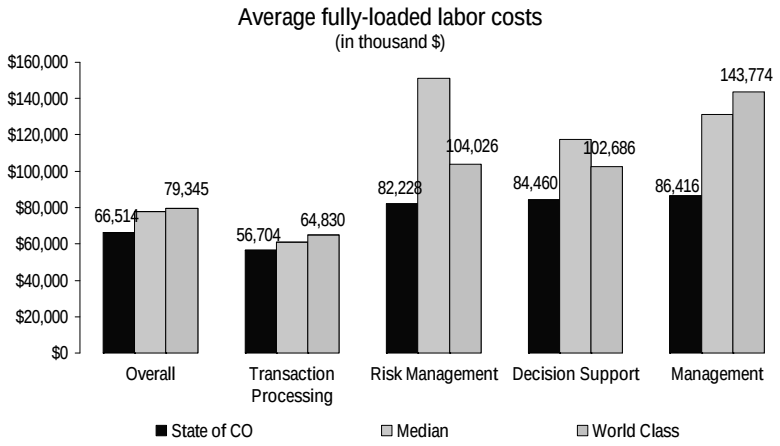
Overall Fully-Loaded Labor Rates are Lower than World Class



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Comparative Process Analysis

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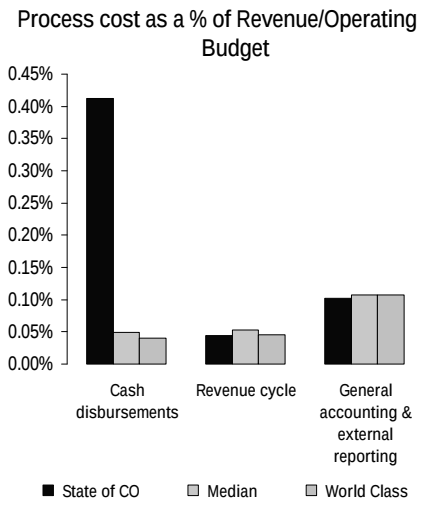
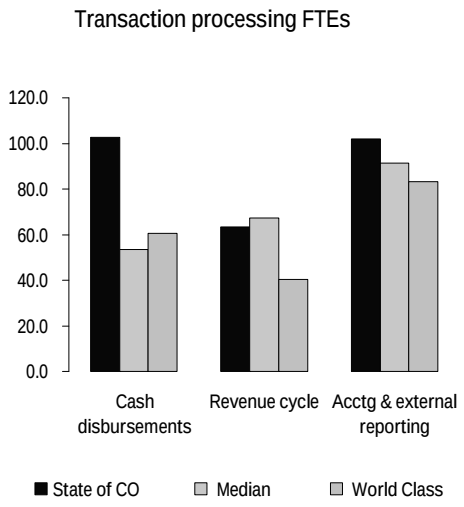
Transaction Processing Staffing Levels and Process Costs





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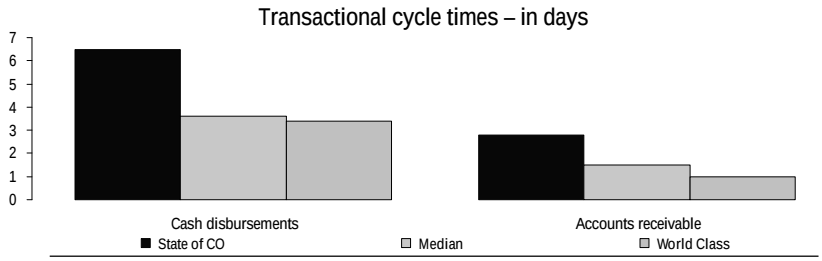
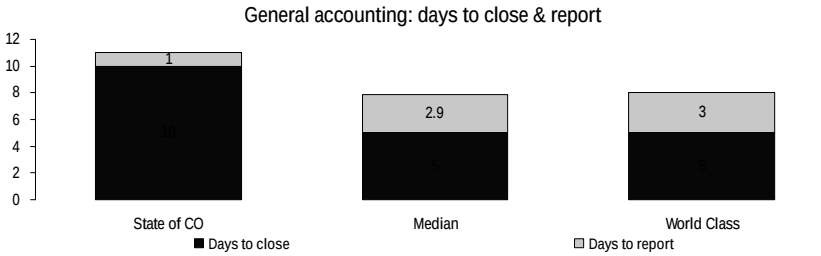
Transactional Cycle Times Exceed Median and World Class





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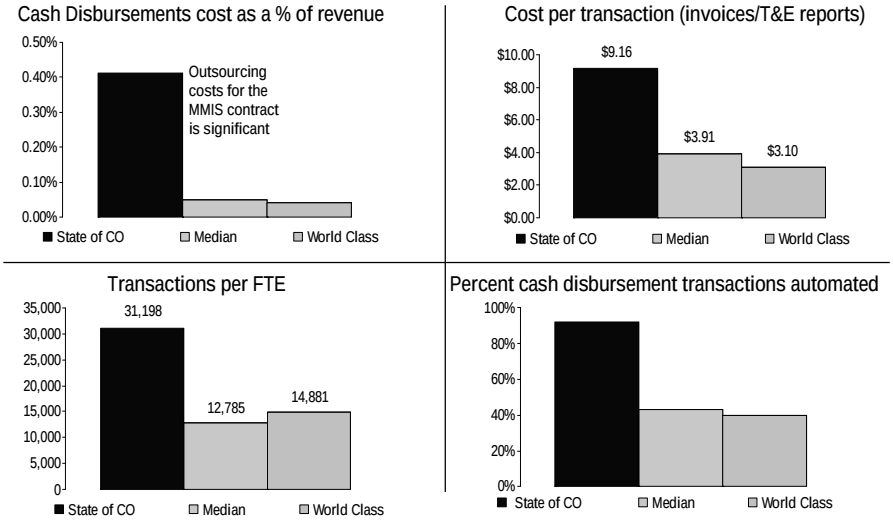
Despite High Automation and Productivity, Process Fragmentation Drives Greater Process Costs in Payables



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The Highly Fragmented Cash Disbursements Process Should be Considered a Candidate for Shared Services

	Accounts Payable	Travel & Expenses	Cash Disbursements
Locations in process	15	15	15
Total FTEs in process	77.51	25.08	102.59
average FTEs per location	5.2	1.7	6.8
Locations with less than 5 FTEs	10	13	9
Percent of total locations having <5 FTEs	67%	87%	60%

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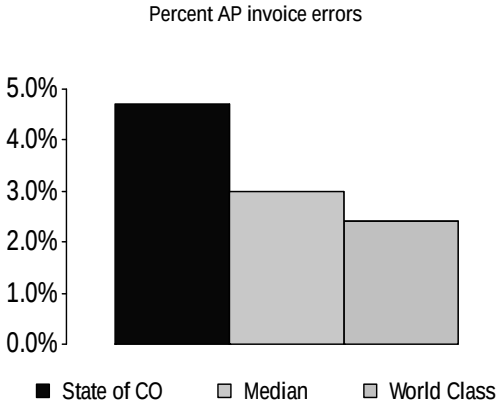
There is an Opportunity to Improve the Accounts Payable Error Rates



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Best Practices Analysis for Cash Disbursements

◆ Degree of integration of the purchasing application to the accounts payable application	5 Locations – High 5 Locations - None	Highly Integrated
◆ Suppliers submit their invoices electronically	1%	54%
◆ Workflow cycle to process a transaction (invoice/T&E) is kept to fewer than five business days	6 days	2 days
◆ Percentage of travelers completing and submitting their expense reports via an online application	0%	100%
◆ Percent of expense reports requiring management approval	98%	26%
◆ Percent of expense reports audited for compliance (e.g., sample size)	100%	4%

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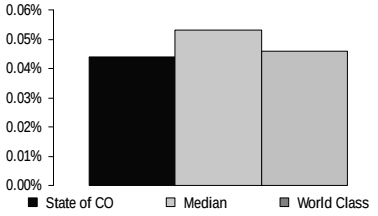
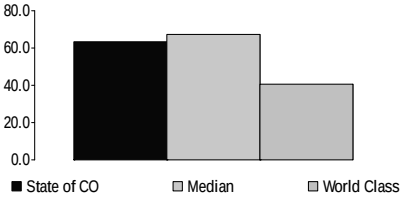
The Revenue Cycle has Minimal Automation Which may be Resulting in Greater Rework

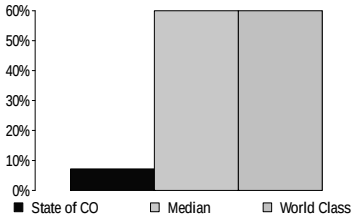
Revenue Cycle cost as a % of revenue



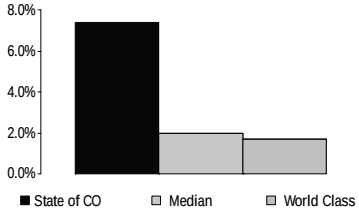
Revenue Cycle FTEs



Percent customer bills processed electronically



Occurrence of billing errors



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Best Practices Analysis for Revenue Cycle

◆ Integration between order entry/sales application and billing	None	High (> 75%)
◆ Integration between customer billing and accounts receivable	3 Locations – High 3 Locations - None	High (>75%)
◆ Percent of customer invoices sent to customers electronically	1%	40%
◆ Ability for customers to inquire on their accounts through an Internet or secure intranet application (e.g., self-service bill inquiry)	4%	25%
◆ Automatic remittance posting match rate	16%	97%

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Opportunities for Shared Services may also Exist in the Fragmented Revenue Cycle Process

	Credit	Customer Billing	Collections	Cash Application	Revenue Cycle
Locations in process	-	9	8	12	13
Total FTEs in process	-	31.52	9.23	22.69	63.44
average FTEs per location		3.5	1.2	1.9	4.9
Locations with less than 5 FTEs	-	9	8	12	10
Percent of total locations having <5 FTEs		100%	100%	100%	77%

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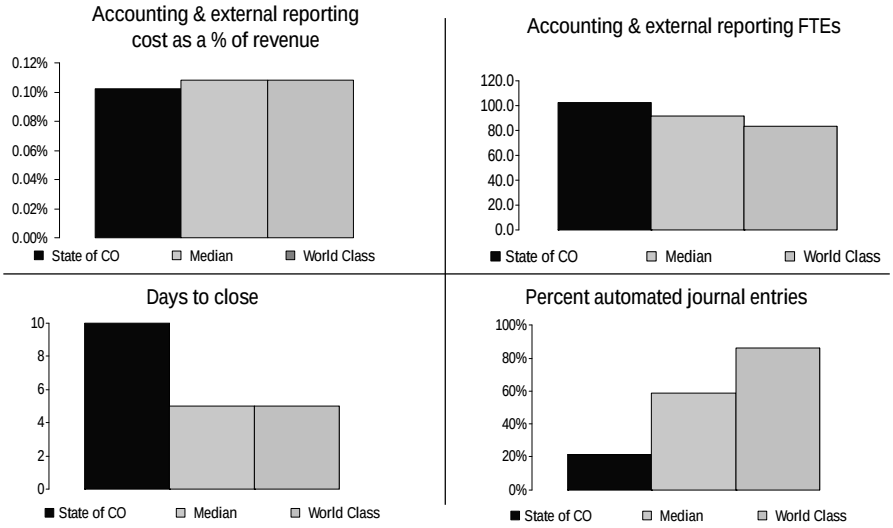
There May be an Opportunity to Increase Journal Entry Automation and Reduce the Close Cycle Time



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Best Practices Analysis for Accounting & External Reporting

◆ Centrally maintained uniform single chart of accounts for all product lines/business units	Yes	Yes
◆ Establish minimum threshold materiality limits when making intercompany transactions	$0	$1,760
◆ Number of general ledger accounts in chart of accounts	2,283	499
◆ Percentage of regulatory filings and forms that can be automatically produced from the regulatory reporting application?	1%	56%
◆ Fixed asset application integrated with the purchasing/accounts payable application to eliminate re-keying of fixed asset detail	None	High (>75%)

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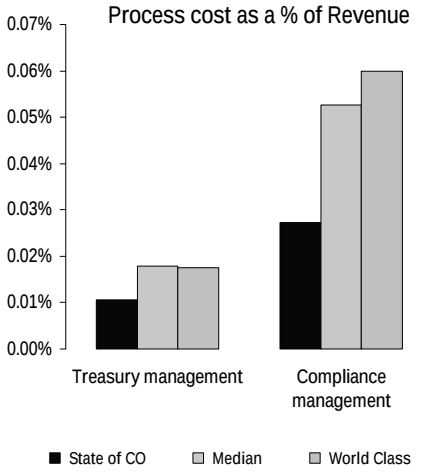
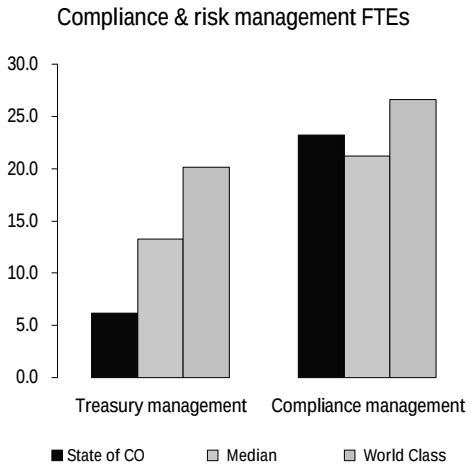
Control & Risk Management Process Costs and Staffing Levels





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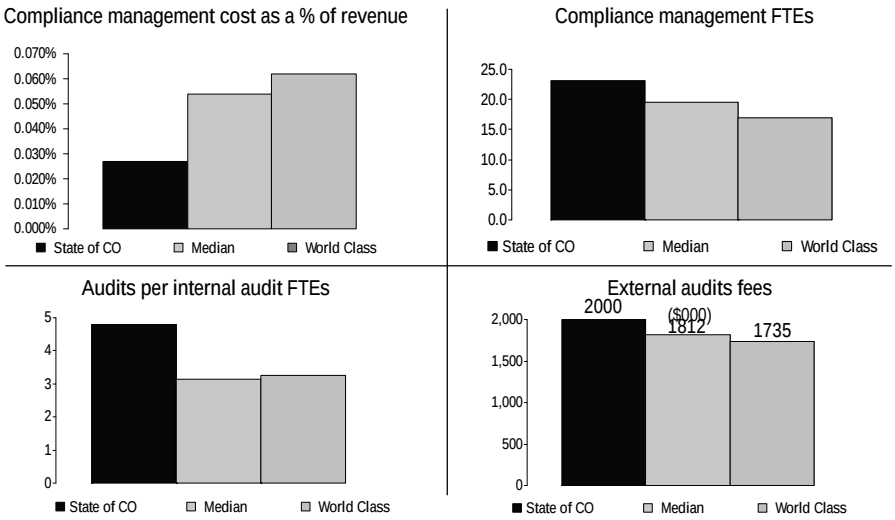
External Audit Fees Exceed World Class Levels



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Best Practices Analysis for Compliance Management

◆ Internal audit working with transaction processing teams to teach materiality and auditing techniques to improve efficiency/minimize risk	DOC – Medium DOT – Low Legis.-Auditors Office - None	Medium (25% - 75%)
◆ Percent of total assets (based on monetary value) audited annually	2%	48%
◆ Percent of locations audited annually	47%	40%
◆ Utilization of computer-based audit profile models to identify locations and transactions to be audited	No	Yes
◆ Use of self-assessment control reviews as an alternative to having internal audit perform field reviews	None	Low (<25%)
◆ Elapsed time from opening conference to field completion	78 day(s)	30 day(s)
◆ Elapsed time from field completion to final report	62 day(s)	18 day(s)

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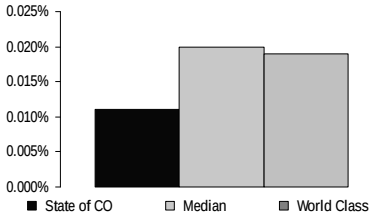
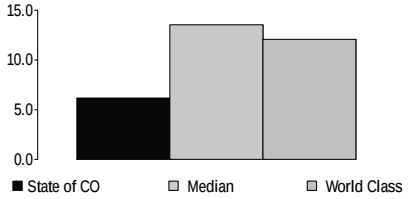
There May be an Opportunity to Reduce Annual Banking Fees

Treasury management cost as a % of revenue

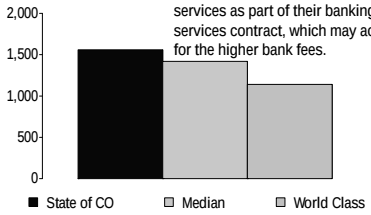


Treasury management FTEs

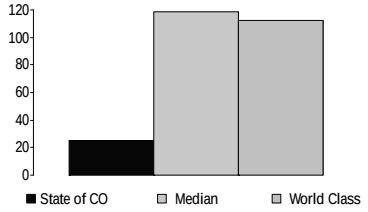


Annual gross banking fees
($000)

The state does not utilize bank-lending services as part of their banking services contract, which may account for the higher bank fees.



Bank accounts



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Best Practices Analysis for Treasury/Cash Management

◆ Percent of disbursement accounts set up on a positive pay program and automated bank account reconciliation	N/A The State utilizes a "Reverse" positive pay process	81%
◆ Percent of cash transactions with daily cash positioning and funds mobilization automated through electronic linkages of local/remote sites	0%	80%
◆ Percent of cash management transactions requiring correction	1%	1%
◆ Extent comprehensive investment/debt strategy is tied to the company's overall operating and strategic plan	High (>75%)	High (>75%)
◆ Up-front involvement of treasury in the structuring and financing of large new deals, acquisitions, divestitures and customer negotiations	High (>75%)	High (>75%)
◆ Use of hedging instruments to reduce financial risk	None	Low (<25%)
◆ Comprehensive interest rate and currency risk management application for tracking and analyzing interest rate and currency-related transactions	High (>75%)	Low (<25%)

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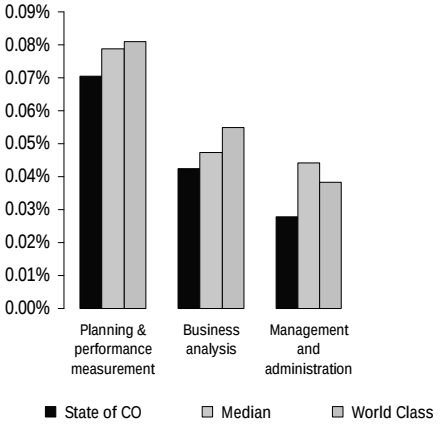
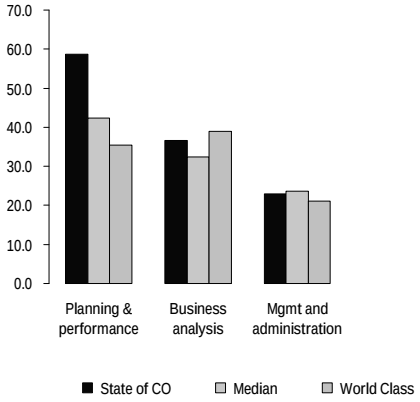
Decision Support & Administration Costs and Staffing Levels

Process cost as a % of Revenue



Planning, analysis and decision support FTEs



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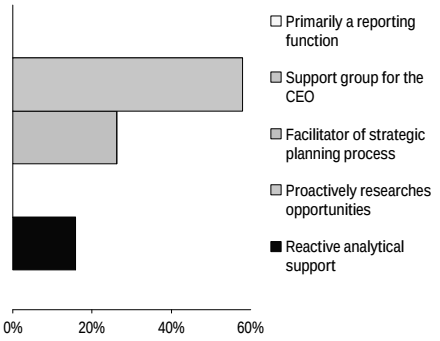
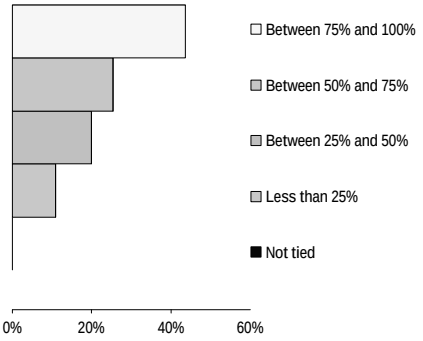
There is Opportunity to Standardize the Role of Finance in Strategic Planning

What is finance's role in strategic decision making?



4 Locations = Proactively Researches Opportunities
3 Locations = Facilitator of Strategic Planning Process
2 Locations = Primarily a Reporting Function

Percent of finance change efforts tied to business strategy



State of CO - Between 25% and 50%

Note: graph represents a distribution of median companies

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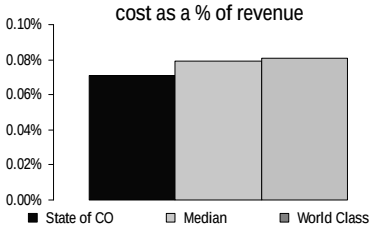
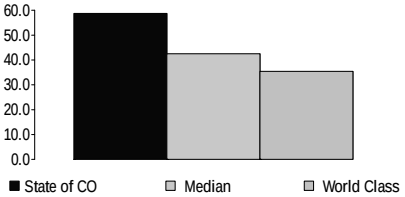
There are Minimal Performance Reports Generated Although Those Produced Focus on Future Actions

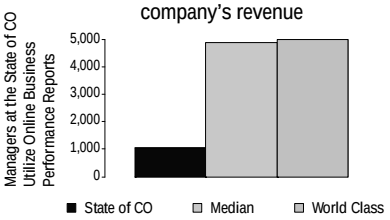
Planning & performance measurement cost as a % of revenue



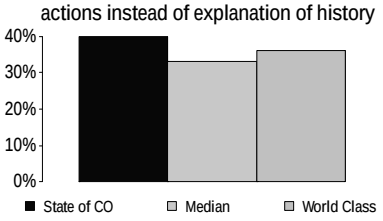
Planning & performance measurement FTEs



Annual performance reports issued per company's revenue



Reports and commentaries address future actions instead of explanation of history



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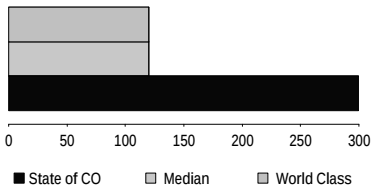
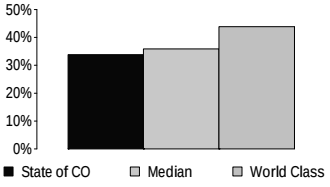
The Budget Process is Complex (number of line items) and There is Little Automation to Support the Consolidation

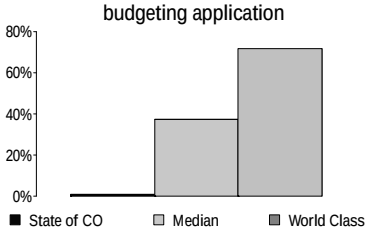
Days to complete the budget



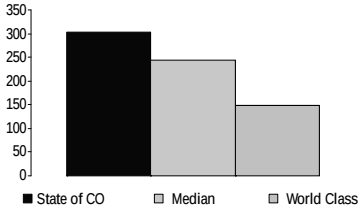
Percent of customers that describe the budget process as convenient and easy



% of operation managers using online budgeting application



Number of line items in budget



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Best Practices Analysis for Planning and Performance Measurement

◆ Percent of cost center managers that enter budgets into an online budgeting application that automatically feeds a consolidated model	1%	44%
◆ Number of budget iterations performed before final approval	3	3
◆ Integration of the tactical business plan with the budget	Macro level only	Fully Integrated
◆ Modeling tools support 'what if' scenarios / sensitivity analysis	42%	52%
◆ Percent of the time business performance reports address future actions instead of an explanation of history	40%	32%
◆ Extent a balanced scorecard or similar process has been developed	No development	Mature
◆ Percent of business performance reports are generated from a central data repository	67%	38%

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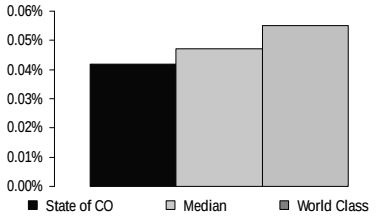
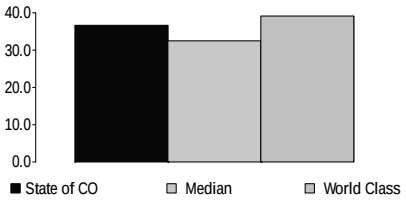
Business Analysts Consider Themselves Partners with the Agencies They Support and are Highly Productive

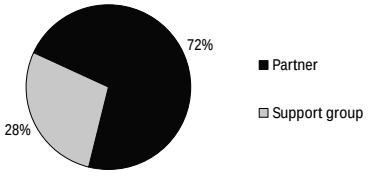
Business analysis cost as a % of revenue



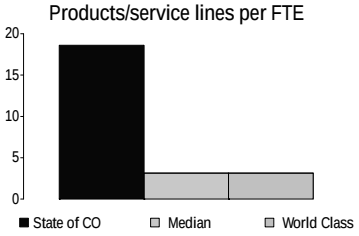
Business analysis FTEs



Self assessment of finance analysts level of partnering with operations management



Products/service lines per FTE



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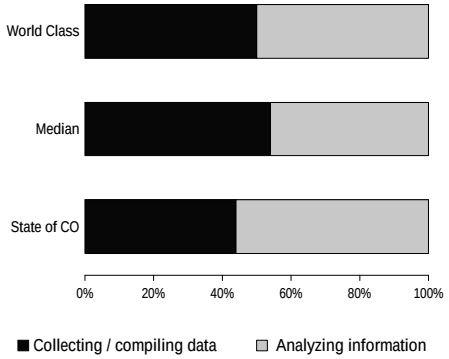
State of CO's Analysts Spend More Time Analyzing Information Than the Median or World Class

Allocation of analysts' time for standard reports



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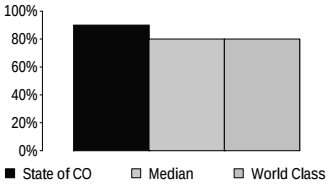
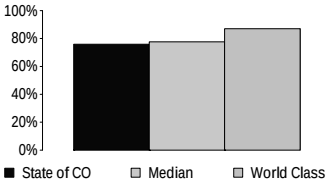
Quality of Analysis Output is Comparable to World Class

Percent of time the output of business performance analysis is considered on target by internal customers



Percent of time new business/pricing analysis is considered on target by internal customers



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Best Practices Analysis for Business Analysis

◆ Percent of analysis staff is experienced in both finance and your company's operations	54%	59%
◆ Percent of time both financial and non-financial performance measures are utilized in analyzing the relative success of the business	56%	83%
◆ Percent of time the analytical focus is on proactive decision-making and planning rather than historical reporting	48%	80%
◆ Percent of time indirect expenses are incorporated into the cost analysis system to determine product cost	86%	84%
◆ Percent of the time analysts employ various sensitivity, investment and value-analysis techniques	23%	72%

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Technology Analysis

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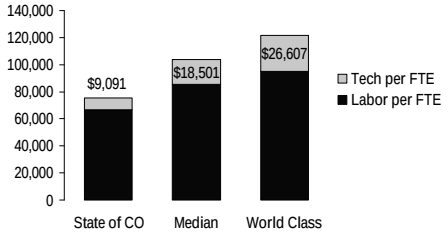
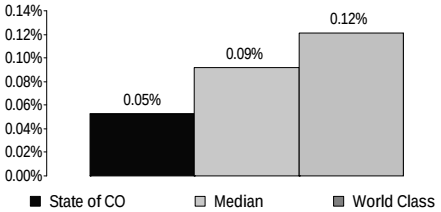
Investment in Technology is Lower Than Median or World Class Levels

Labor v. technology cost per FTE



Finance technology cost as a % of revenue



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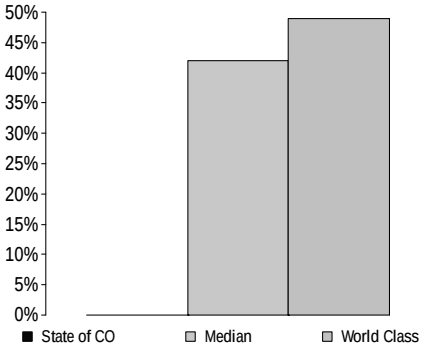
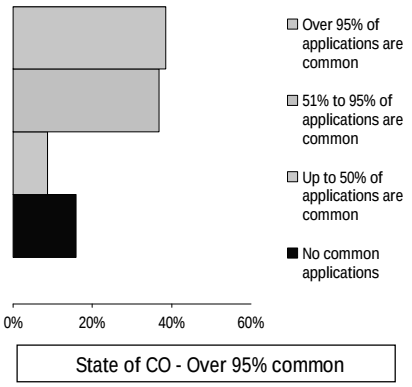
Though the Finance Organization is on a Common Platform, no Single Application Supports Reporting Needs

Single application or database satisfy statutory and management reporting requirements



Finance organization on common application platform



Note: graph represents a distribution of median companies

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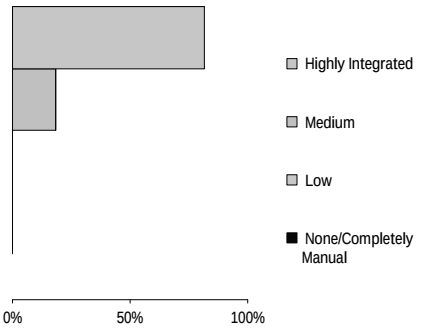
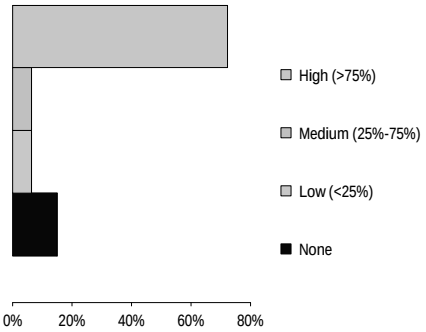
Levels of Integration Vary Across Transactional Processes, Impacting Efficiency

AP to GL application integration



State of CO - Highly Integrated

Customer billing application integration



State of CO - None

Note: graph represents a distribution of median companies

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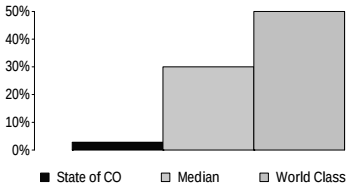
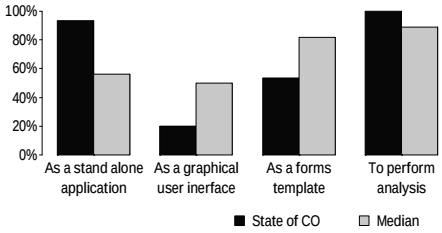
Decision Support Tool Deployment is Limited and There's a Greater Leverage of Spreadsheets for the Budget

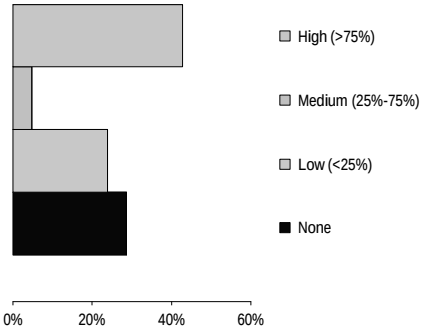
Business-simulation models used scenario analysis



Spreadsheet usage in budgeting and forecasting



Use of data management and analysis tools (Data Warehousing/Data Marts)



State of CO – 5 Locations – Medium, 5 Locations - High

Note: graph represents a distribution of median companies

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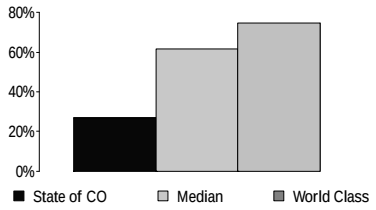
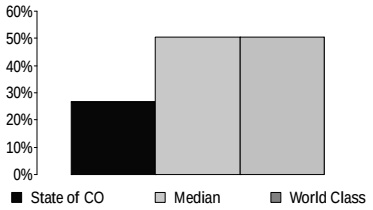
There's an Opportunity to Increase Technology Support for the Internal Reporting and Cash Receipts Processes

Percent of reports distributed electronically



Percent of remittances settled electronically



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Recommendations (Discussion)

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Leveraging the Hackett Benchmark Findings

- Benchmarking: Lessons Learned
  - Efficiency (low cost execution) is important, but needs to be viewed in context with performance effectiveness (quality, service, responsiveness, ease of use) as key elements of overall process improvement
  - Cost savings do not always translate into overall headcount reduction, just redeployment of resources to maximize value added
  - There is an opportunity to streamline administrative processes and convert cost savings into expanded program expenditures
- People & Process vs. Technology
  - Differentiate functional process improvements and Best Practices from systems modifications
  - Now is the time to enact process changes…before considering technology solutions
  - Now is also the time to recognize the people considerations and start a change management program

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In Summary, the Overall Benefits Available to the State of Colorado Finance are Significant

- Ability to significantly leverage the scale opportunities of the State
- Improved efficiency and effectiveness across Finance and its stakeholders
- Rapidly improved transaction processing service levels (i.e., shorter cycle times, reduced error rates)
- Improved ability to enhance available information, optimize processing costs and purchased costs through strong integration and partnering with stakeholders

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We Recommend that the State of Colorado Focus on Three High Priority Actions

- Action #1 - Develop best practice based solutions for each core finance process
- Action #2 - Define and implement an enterprise-wide finance organizational model
- Action #3 - Better leverage technology across Finance

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Action #1 - Develop Best Practice Based Solutions for Core Finance Processes

- Migrate core transaction processes (Requisition-to-Payment, Invoice-to-Cash, Account-to Report) to a best practices vision and performance
  - Rationalize policies and controls while standardizing process and technology enablers
  - Eliminate handoffs, redundancies and non-value added steps
  - Use system-based controls while moving controls from the back to the front of the process therefore reducing rework and inefficient tasks
  - Capture information at the source (via integrated systems, self-service applications, etc.)
- Improvements to Performance Reporting and Business Analysis
  - Evaluate the feasibility of establishing an enterprise and/or shared business intelligence solution
  - Improve reporting capabilities using improved reporting enablers, consider developing balanced scorecards that include financial and non-financial metrics
  - Reduce the complexity of forecasts performed and the effort required to support the current complex budgeting process

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Action #2 - Define and Implement an Enterprise-Wide Finance Organizational Strategy

- Develop an enterprise-wide organizational strategy to leverage the State's scale, reduce fragmentation, and realign the staff mix within each function
  - Create a functionally aligned organization. Minimize agency autonomy for common activities. Establish clear accountability for processes/activities within each function. Define the role of each function at the Agency/Department level.
  - Identify the skills and competencies necessary to support the future mission of each function.
  - Establish statewide shared services and/or process centers of excellence
  - Establish organizational and staffing plan for each function to better provide the strategic and operational support needed.
  - Evaluate the effectiveness of the current compensation strategy to support each functional organization.

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Action #3 - Fully Leverage Technology Across Finance

- Develop a strategy with associated business case for increasing the leverage of enabling technologies throughout State of Colorado including:
  - Evaluation of best of breed vs. ERP
  - Assessment of Agency vs. Enterprise
  - Integration of data sources to Executive dashboard
  - Elimination or standardization of manual and spreadsheet based reports
  - Enhance reporting environment through user self-service portal, push technology, user dashboards, and higher-end OLAP tools – This functionality supports the Performance Reporting process
  - Consider an on-line budgeting application that enables data to be input throughout the organization and consolidated automatically

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Next Steps

- Validate benchmark findings
- Decide on a maximum of 2 – 4 initiatives that will be the focus for improvement
- Establish transition committee and process owner
- Evaluate current project landscape to avoid duplication / competition of effort
- Start initiatives and measure permanent progress
  - Set quarterly timelines including quantitative targets
  - Measure, report and communicate progress on a quarterly basis
- Keep focus and communicate, communicate, communicate

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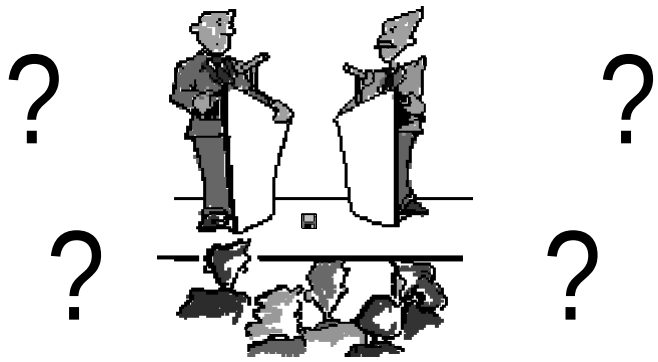
Questions or Comments?



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Appendix (Supporting Metrics)

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The Path to Becoming a World Class Finance Organization Includes Closing a $26 Million Process Cost Gap

	Process Cost Gap ($ millions)	
	To Median	To World Class
Cash Disbursements	25.81	26.46
Revenue cycle	-	-
General accounting & external reporting	-	-
Tax management	-	-
Treasury management	-	-
Compliance management	-	-
Planning & performance measurement	-	-
Business analysis	-	-
Management and administration	-	-
Total gap	25.81	26.46

The cost differences shown are mathematical calculations intended to give an understanding of processes with potential for performance improvement . Your organization's areas of focus and actual performance improvement targets should be developed only after considering issues such as organizational structure, business requirements, regulatory requirements, investments required and other factors.

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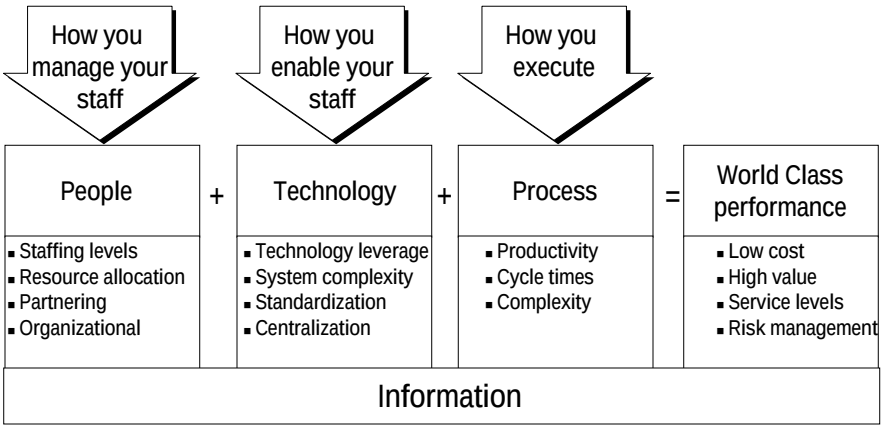
Improving all Key Business Drivers Simultaneously is Essential to Becoming World Class



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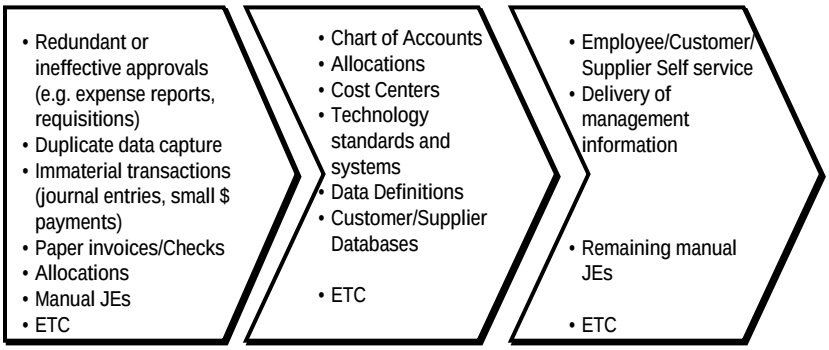
To Move from Transaction Processor to Business Partner the Best Have Followed the Same Path

Observed Best Practices



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"Explicitly addresses the business value derived from Finance by linking Finance performance to business results"

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