Industry Perspective

Retail Finance Transformation:

Leaning into the Digital Future

A persistent state of disruption.

Disruption is nothing new in retail. Recent events have shown us how difficult seeing around the corner can be. While restrictions, health mandates, supply chain challenges, and shifting consumer behavior have been at the forefront, those retailers with an appetite for business-wide transformation and digital acceleration have been able to use these challenges to accelerate change that would have typically taken three to five years.

In fall 2021, KPMG surveyed consumer and retail CEOs on their top priorities to address the rapidly changing retail landscape. Among these priorities:

- A total of 74 percent plan to increase investment in new disruption detection and innovation processes
- 64 percent plan on joining industry consortia focused on the development of innovative technologies
- More than half (58 percent) are looking to make their products and services available via an online-platform provider, including social media
- Nearly one-third (32 percent) will look to partner with third-party data providers

In the face of our current environment, it is clear that retailers are making broad and bold changes to operating models and business processes to ensure their viability in the future.

2022: Disruption turns into opportunity.

As we turn the calendar to a new year, consumer and retail (C&R) leaders are feeling positive about their future growth prospects. A total of 86 percent say they are “confident” or “very confident” about their organization’s growth over the next three years. And how do they expect to achieve their growth objectives over those next three years? Among all growth strategies, 36 percent of C&R leaders are focused on strategic alliances with third parties. Organic growth (via innovation, R&D, capital investments, new products, and recruitment) was close behind, cited as a key strategy by 34 percent of C&R leaders[1].

What does this mean for CFOs as they navigate the impact on the finance organization in support of these massive strategic shifts? A few things come to mind:

- Making agility a priority
- Investing more quickly and effectively in powerful new digital capabilities while also driving cost efficiencies

[1] KPMG 2021 Consumer & Retail CEO Outlook Survey,
https://home.kpmg/xx/en/home/insights/2021/09/2021-ceo-outlook-consumer-and-retail.html

- Involving finance early on in pursuing smart strategies in order to be customer-centric by making products and services available in the correct channel in as timely a way possible

With the correct strategies in place, finance has an opportunity to be at the epicenter of enabling new technologies, changing business models, and supporting shifting consumer habits. It is clear that the urgent need to make use of data in real time is leading us to the correct conclusion that retail has changed for the better[2].

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> Retail customers are retiring old behaviors and forming new shopping habits in ways that are not circumstantial but structural. This pressures finance organizations to be more agile and strategic.
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> **Sanjay Seghal**
> Partner, Advisory Head of Markets, KPMG

The time is now for finance organizations to disrupt themselves to transform the slow and costly legacy systems and processes.

Finance at the epicenter.

Even in "normally disruptive" times, market turbulence sends shockwaves through every part of a retail business. But its effects are most keenly observed in finance, where all financial and operational data comes together to help decision-makers gain a picture of a company's health.

Amid the pandemic, retail CFOs and their finance organizations worked diligently to respond to changing conditions with agility. Some were more successful than others, but all felt the impact—positive or negative—of massive disruption.

Exposing costly vulnerabilities.

Left disoriented by shocks to revenue, demand, and supply chains, many retail CFOs have discovered that the challenges of the pandemic exposed shortcomings that already existed within their accounting, analytics, and planning environments.

These finance leaders found their organizations burdened by legacy systems and processes that stymied their ability to reforecast quickly and execute informed decisions confidently—a significant business risk as foot traffic evaporated, floor merchandise went unsold, and supply chains proved unreliable. Many of these risks still remain today with varying intensity, but the time is now for finance organizations to disrupt themselves to transform the slow and costly legacy systems and processes.

[2] https://advisory.kpmg.us/articles/2020/retail-state-of-industry-2020.html

What is leaving finance organizations vulnerable?

Manual accounting and planning processes lead to cumbersome close cycles, delayed reporting, unreliable forecasts, and a lack of operational agility. Finance teams spend so much time sifting through and inputting data, reconciling actuals with budgets, and creating ad hoc reports that they are left with little time to act as strategic advisors to the business—and this at a time when retailers navigating uncertainty desperately need informed guidance.

"Manual processes present systemic challenges few retailers can afford, especially now," notes John Hugo, a CPA and former retail finance executive who oversees financial products and go-to-market at Workday. "Retail CFOs can't continue to do what they've always done and expect a better result."

Siloed data (from ERP, CRM, point of sale, and other sources) prevents access to timely, data-driven insight, and hinders retailers' ability to deliver a seamless "connected commerce" experience for brick-and-click or click-and-collect consumers. Without an integrated data framework, retailers have little chance to succeed at new digital initiatives.

The inability to view and analyze data makes it difficult for retailers to support the growing need to reforecast virtually every aspect of their business. This includes how changes in store footprint, staffing, assortment mix, channel mix, pricing, and other variables may impact key performance indicators (KPIs), such as sales per square foot, average transaction value, and margins.

"Finance plays a critical role in forecasting key metrics like inventory turn, which is challenging for both online-intensive retailers due to high volumes, and brick-and-mortar hybrids due to inventory in stores with slow customer traffic," notes Brett Benner, consumer and retail finance transformation leader at KPMG. "These are complex challenges, and they're not going away anytime soon."

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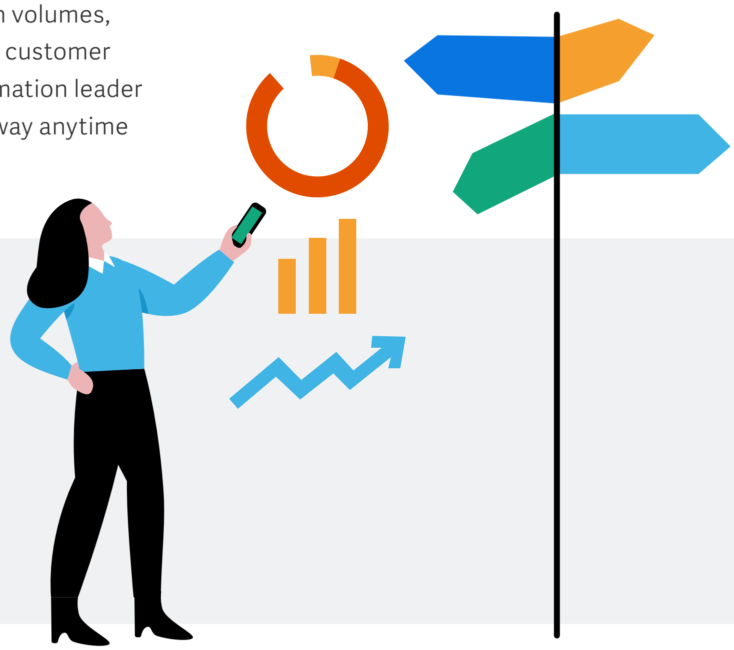
> Vice President, Financials Products and Go to Market, Workday



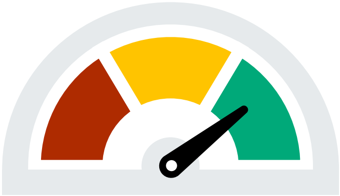
Investing in answers.

After many CFOs initially held off new investments in response to the pandemic, the urgent need for agility has since accelerated initiatives to modernize finance with new technologies and processes. This is particularly true in retail, where growing numbers of data sources are increasingly disconnected from planning and accounting systems. In fact, 74 percent of consumer and retail CEOs told KPMG they are increasing investment in disruption detection and innovation processes. Investments in cloud solutions, notes an IDC report, increasingly represent retailers' "primary path to adapt quickly."

"Finance needs to be asking some key questions," says KPMG's Benner. "What tools and capabilities are available to finance professionals to provide the insights they need? How can they provide information across the business, and across all systems, so they can make operational decisions more quickly and effectively?"

Answering those questions will prove even more vital as retailers upend old delivery models. Many of the industry's biggest names are transforming the stock rooms of brick-and-mortar stores into microfulfillment centers that ship merchandise directly to online customers as well as offer curbside pickup. Compared to long-haul shipping from distribution centers, shorter trips from local stores can save on transportation costs. And filling orders directly from showrooms prevents in-store inventory from aging into dead stock.

The implications for finance are vast. Creating hundreds, if not thousands, of new fulfillment centers means recalibrating how expenses are accounted for and performance is measured. Will sales per square foot remain a critical KPI when much of that space is devoted to fulfillment and staging for curbside pickup? How do workforce expenses change when on-site personnel must be reskilled to handle both in-store and online purchases, not to mention returns? Will stores need more personnel, or fewer? What type of sophisticated analytics is required to forecast the fulfillment inventory that must be available at each store based on area demographics, seasonality, and other factors?



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The need for rapid ROI.

Looking for immediate ROI and the ability to easily expand capabilities to meet these evolving needs, many retail CFOs are bypassing the long, heavy lift of replacing or upgrading their legacy ERP systems in favor of deploying best-in-class enterprise cloud applications. These solutions cost less and can be implemented quickly. And the fact that they're easier to scope helps to streamline funding and approvals.

"This is strategic digital transformation that allows retail finance organizations to address their most urgent needs first," notes Ben Pierce, vice president of sales for financials, planning, and analytics at Workday. "CFOs want to know that their P&L reflects all the information that the business runs on—a single source of the truth. That way, they can forecast and make decisions with confidence. But current, disjointed systems can stand in the way of that. CFOs need solutions designed to ingest and analyze data coming from every part of the business and every system it uses."

Acting now with a best-in-class enterprise cloud strategy.

Especially now, strategically implementing new capabilities can be an attractive proposition to retail finance organizations looking to modernize areas that will make the biggest impact on margins. Leading cloud-native enterprise applications make this possible by integrating and interacting with legacy ERP and transactional systems so transformation takes place where it's needed most—without disrupting other critical processes the business relies on to operate.

A best-in-class enterprise cloud strategy offers another advantage. Compared to shouldering the burden and expense of ERP replacements every decade or so, retailers relying on point solutions can rapidly and cost-effectively evolve their finance systems over time to accommodate new transactional systems and data sources, systems acquired through mergers, new or expanded supplier relationships, and scaling for growth.

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The new, flexible face of finance.

"What this targeted approach offers is flexibility and choice," notes Workday's Pierce. "If your manual accounting processes are a mess, you can implement a solution to automate those tasks, shorten your close, and free up your team to add more value. If you're doing piecemeal analytics without even having access to all the information you need, you can deploy a solution that surfaces insights from every data source. If your plans and budgets are obsolete as soon as they're published, you can roll out a collaborative, continuous planning environment so all your stakeholders have access to the latest actuals and projections."

As retail CFOs weigh their targeted transformation options, they should consider best-in-class enterprise cloud applications—or even parts of applications—that enable them to:

Automate manual tasks. "It's hard to find a bigger change agent in retail finance than automation," says Workday's Hugo. "Automation gives finance a chance to transform the business process framework as a whole, and to drive new efficiencies. Suddenly, instead of chasing data, you're looking for journal insights and identifying anomalies that could flag a problem or an opportunity. You're managing by exception."

Integrate data from virtually any source—then analyze it. "There's going to be more pressure on finance professionals to really be able to make use of their data," says KPMG's Benner. The goal is to create a rich, unified, intelligent data foundation—a single source of truth—that combines with powerful analytics to help finance identify the real drivers of the business. Adds Sehgal, "You'll see more analytics allowing finance to answer new questions: What store footprint should we have? Do we have a reasonable profitability goal by store? Do we even need to have foot traffic here?"

Harness advances such as AI and machine learning (ML) to run what-if scenarios. "We're seeing a new digital area around planning and forecasting," observes Sehgal. Running multiple what-if scenarios can produce increasingly accurate forecasts (at company, regional, assortment, store, departmental, and even SKU levels) so managers can plan and execute with confidence—and modern solutions make it possible to model virtually anything. "Organizations can weigh various possible business model options, and then pivot quickly and confidently in response to major market moves or economic shocks," Sehgal notes.

Empower and equip people across the business to take an active and collaborative role in finance and planning processes. According to Benner, the pandemic has changed how finance works, probably forever. "We've proven that finance can do its quarterly or monthly close virtually," Benner says, noting that the collaborative nature of cloud-based solutions—along with a more comprehensive and strategic use of data—opens the door for traditional finance processes to involve stakeholders throughout the company.

Enable continuous planning using fresh actuals. Decision-makers can execute faster when they know their actions are based on current, real-world data. A continuous planning environment supports this further by ensuring that plans, budgets, and forecasts are never out of date. And because leading best-of-breed solutions tap a single source of truth and link all plans to the corporate plan, decision-makers at all levels remain aligned.

Transform "hot spots" in the retail environment while keeping existing back-end systems in place. Retailers should seek out solutions with an in-memory, cloud-based architecture built to work with both back-office applications and front-office systems that blend financial, worker, and operational data to surface fresh insights for a complete understanding of operations and outcomes.

Provide the ability to define and track new operational KPIs that reflect the rapidly changing nature of retail. "Retail KPIs tend to be either operational or financial," says Hugo. "But modern systems allow CFOs to create new metrics that combine KPIs from both so you can identify cost-to-serve for cohorts of customers, or even individual customers."

Gain more strategic control over the supply chain by engaging all stakeholders in the source-to-pay process. Consumer and retail CEOs rank supply chain risk as the greatest threat to their organization's growth, suggesting that the digital transformation of sourcing ecosystems should be an urgent priority. Modern sourcing solutions give retailers better visibility into their supply chain, ensure a diverse supplier base, help manage supplier compliance, and make it easier to monitor third-party risk.

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> **Shehtaaz Zaman**
> Director, Finance Transformation, KPMG

Modern finance as value integrator.

If retail as we know it is indeed over, then its future may rest in the hands of finance. "Finance has to be able to play the role of advisor to the rest of the business," says KPMG's Director of Finance Transformation Shehtaaz Zaman. "Finance's value proposition is to be able to quickly provide insights and analytics on how we should manage performance."

Over the course of the pandemic, we have seen a dramatic acceleration not only in the race to modernize skill sets, competencies, and capabilities—so that workers are comfortable operating across digital solutions—but also in the face of the ongoing war for talent. As a result, finance leaders are also being asked to take more active, hands-on roles in shaping their talent management strategies, including how they attract, hire, develop, and retain workers.

Sehgal agrees. "Finance has a very important role in working with the business to simplify the complexity of retail. The more finance reaches out to the other parts of the business, and the more it can orchestrate planning throughout the company, the more it can unlock the value of those insights."

Realizing this, leading finance organizations have found a way to be the "value integrator" across the retail back office, and even across operations in the front office. A focus on data integration, process automation, new technologies to answer new questions, and a collaborative, continuous planning environment that pushes beyond finance will all shape the industry's future.

What's next: No waiting.

For KPMG's Benner, there's no question about the next move for retailers—and that for CFOs aiming to lead their organizations amid increasing uncertainty, waiting is not an option. "Our view is that now is the ideal time to invest in your back office, because you're seeing firsthand the need to have an agile, responsive organization," Benner says. "And the key enabler for that is digital finance transformation."

For Sehgal, the need for retail finance to modernize is greater now than ever. "This is the most opportune time for the CFO to make a dramatic shift into the future by digitizing, modernizing, and transforming the way finance operates," Sehgal notes. "Ultimately, it comes down to agility."

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Brett Benner
Consumer & Retail Finance Transformation Leader, KPMG

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