Industry Perspective

Retail Finance Transformation: Unlocking Efficient Growth

Navigating constant disruption in retail.

Disruption is nothing new in retail. The past few years have been ripe with compound volatilities squeezing the industry's already tight margins. While high input costs, supply chain challenges, increasing labor costs, and shifting consumer behavior are putting sustained pressure on profitability, retailers with an appetite for businesswide transformation and increased agility have not only weathered these disruptions, but have also uncovered new sources of value and growth despite them.

Across a series of surveys, KPMG asked consumer products and retail executives to share their top priorities and pressing concerns as they navigate the rapidly changing retail landscape. Among the findings:

- 68% are pursuing enterprise transformations. On average, organizations were undertaking 3 or more transformations across the business.
- 89% believe transformations to be accelerating. Of those, 91% say the need to improve profitability and financial performance is the main driver of acceleration.
- 76% want to use technology to address labor shortages.
- 21% of consumer and retail executives say they've seen gains of 11% or more in profitability or performance from investments in data and analytics.

Through transformative growth strategies, retailers can remain competitive in an ever-changing landscape, providing customers with a high level of service to help drive loyalty.

From uncertainty to clarity.

Retail leaders are feeling cautious about their company's growth prospects, yet headwinds persist, including macroeconomic uncertainty, a challenging geopolitical landscape, and changing consumer behaviors. So how do these leaders plan to counteract those challenges to drive growth? By embracing core business system transformation and investing in AI to increase agility and manage strategic shifts, for starters.

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

- Enhancing visibility between front- and back-office operations
- Investing more quickly and effectively in powerful new digital capabilities while also driving cost-efficiencies
- Involving finance early on in pursuing smart, customer-centric strategies to make products and services available in the correct channel and in a timely manner

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—all while increasing cost-efficiencies. The urgent need to make strategic use of data in real time proves that retail as we have previously known it has changed for the better.

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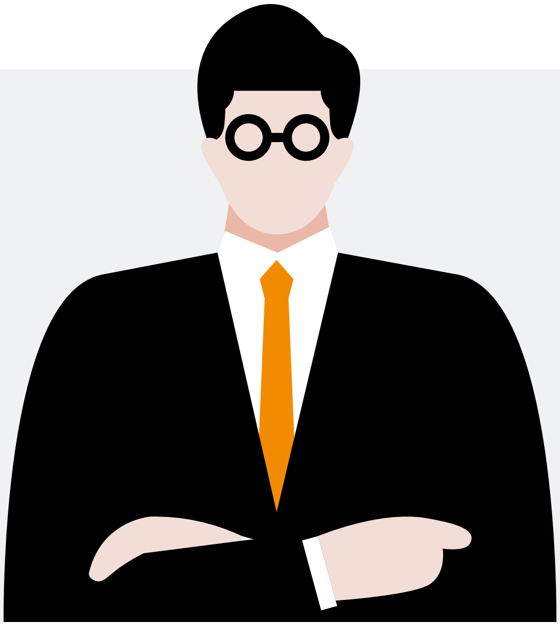
The role and the expectation of the CFO have expanded over the last decade. We are starting to see that getting more formalized at times with another C-title attached to it. That then is setting the foundation of the responsibilities and the organizational capabilities of the CFO organization to be much broader.

Duleep Rodrigo
U.S. Consumer & Retail Sector Leader, KPMG



Finance at the epicenter.

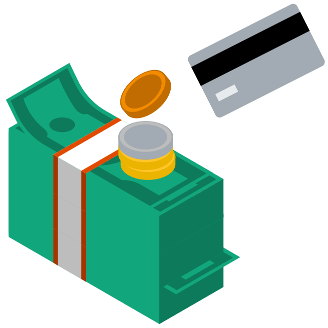
Market turbulence sends shock waves through every part of a retail business, but its effects are most keenly observed in finance, where all financial and operational data comes together to help decision-makers gain a picture of the company's health.

Yet, many retail leaders don't think their finance office is fully optimized for success. A recent global survey of executives conducted by IDC found that only 23% believe that their finance function is "completely prepared" for challenges.

Exposing costly vulnerabilities.

With issues such as high inventory costs and talent shortages revealing shortcomings within accounting, analytics, and planning environments, finance leaders are taking a hard look at their business' weak spots.

And what they are discovering is that their organization is burdened by legacy systems that don't allow for interoperability, and by processes that stymie the ability to reforecast quickly and execute informed decisions confidently. Together, those factors pose significant business risks within an industry where already tight margins are butting up against rising operational costs. The time is now for finance organizations to disrupt themselves and transform their slow and costly legacy systems and processes.



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What is making 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—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 financials 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 insights, and hinders retailers' ability to deliver a seamless "connected commerce" experience. 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.

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> **John Hugo**
> Vice President, Financials Products and Go to Market, Workday

Investing in answers.

The urgent need for agility has 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, 38% of retailers say that getting the needed technology to integrate with current systems is a top challenge in implementing finance systems over the next 18 months, according to an IDC report.

Among retailers, **40% cite improving data-driven decision-making as one of their top priorities.**

"There is a historical underinvestment in technology," says Duleep Rodrigo, U.S. Consumer & Retail Sector leader, KPMG. "The systems are outdated and less integrated, and the reporting that's produced lacks depth and insights. Finance can't be a good business partner and help scale and grow the business with antiquated systems."

By investing in a scalable financial system with embedded AI and advanced analytics, retailers can more effectively manage tight margins, control costs, drive efficiencies, and increase profitability while leveraging a full view of their operations.

The need for rapid ROI.

In the search 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 approach prioritizes efficiency," 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 quick 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."

Act now, with a best-in-class enterprise cloud strategy.

Today, strategically implementing new capabilities can be an attractive proposition to retail finance organizations looking to modernize areas that have the biggest impact on margins. Leading true-cloud 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 the ability to scale for growth. This allows for interoperability among all data sources—busting silos and creating full visibility between front- and back-office operations.

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The new, flexible face of finance.

"What this targeted approach offers is flexibility and choice," notes 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 AI," says Hugo. "AI gives finance a chance to transform the business process framework as a whole and 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 and analyze it. "Finance needs to take on a new role as insights integrator," says Michael Bek, financial transformation leader at KPMG. "It needs to take lots of information operationally and from the stores and digital channels and link that up with financial impacts." The goal being to create a rich, unified data core—a unified source of truth—that combines with powerful analytics to help finance identify the real drivers of the business.

Harness advances such as AI and machine learning (ML) to run what-if scenarios."We're starting to see the possibilities of AI coming to bear in intelligent forecasting," says Bek. Running multiple what-if scenarios can produce increasingly accurate forecasts at the company, regional, assortment, store, departmental, and even SKU level so managers can plan and execute with confidence—and modern solutions make it possible to model virtually anything. "By taking operational or financial data inside the company and enhancing it with external signals, such as the weather or customer trends, we can forecast more rapidly and accurately," Bek notes.

Empower people across the enterprise to take an active role in finance and planning processes. Finance can't be the only internal stakeholder privy to vital information for planning, if a company truly prioritizes enterprise planning. The collaborative nature of cloud-based solutions—along with the more comprehensive and strategic use of data—opens the door for traditional finance processes to involve leaders 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. An agile approach 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. To protect supply chains, digital transformation of sourcing ecosystems should remain a 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.

Modern finance as insights integrator.

With pressure on retailers to do more than ever—including to provide a highly personalized and seamless omni-channel shopping experience—finance must stay on its toes. "The retail business model has evolved over the years, and finance has to continue to stay up to speed and deliver to that evolving business model that is much more broad and complex than it ever has been," says KPMG's Rodrigo. Retailers are getting savvy to the need for transformation: 46% of those surveyed consider improving finance a "most critical" or "top" priority.

The past few years has 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 struggle 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.

Bek agrees. "Finance has to have the ability to walk in the shoes of all of the various functions, because ultimately, everything comes down to some kind of a financial impact."

Realizing this, leading finance organizations have found a way to be the "insights integrator" across the retail back office, and even across operations in the front office. Focusing 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.

"In addition to the traditional questions CFOs ask such as, 'How do I optimize working capital?' they also need to be asking untraditional questions such as 'How do we best enable new services and new products to market?'" says Bek.

Ultimately, a retail business' success hinges on the finance organization's ability to not only ask these sorts of untraditional questions, but also to answer them.

What's next: no waiting.

For KPMG's Bek, there's no question about the next move for retailers—the time to digitally transform is now. "A digital transformation creates agility in the organization—to pursue new business models or investigate acquisitions and divestitures," Bek says.

Rodrigo agrees that in order for an operation to continue growing, it must leverage a cloud-based system with a single source of truth at its core. "An enterprise system allows you to scale the business and increase efficiencies in ways that you weren't able to do before," Rodrigo says. "Whether that's geographic expansion or M&A activity, you now have a platform that you can use to onboard people and scale the business that companies weren't able to do so as readily before."

Ready to reduce the impact of potential disruptions, prepare for future market changes, and support changing guest needs? Find out how a unified platform for finance, HR, planning, and analytics can help. To learn more, visit: workday.com/retail

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> **Michael Bek**
> Financial Transformation Leader, KPMG

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