

E-book

# Bridging the Finance and Operations Gap

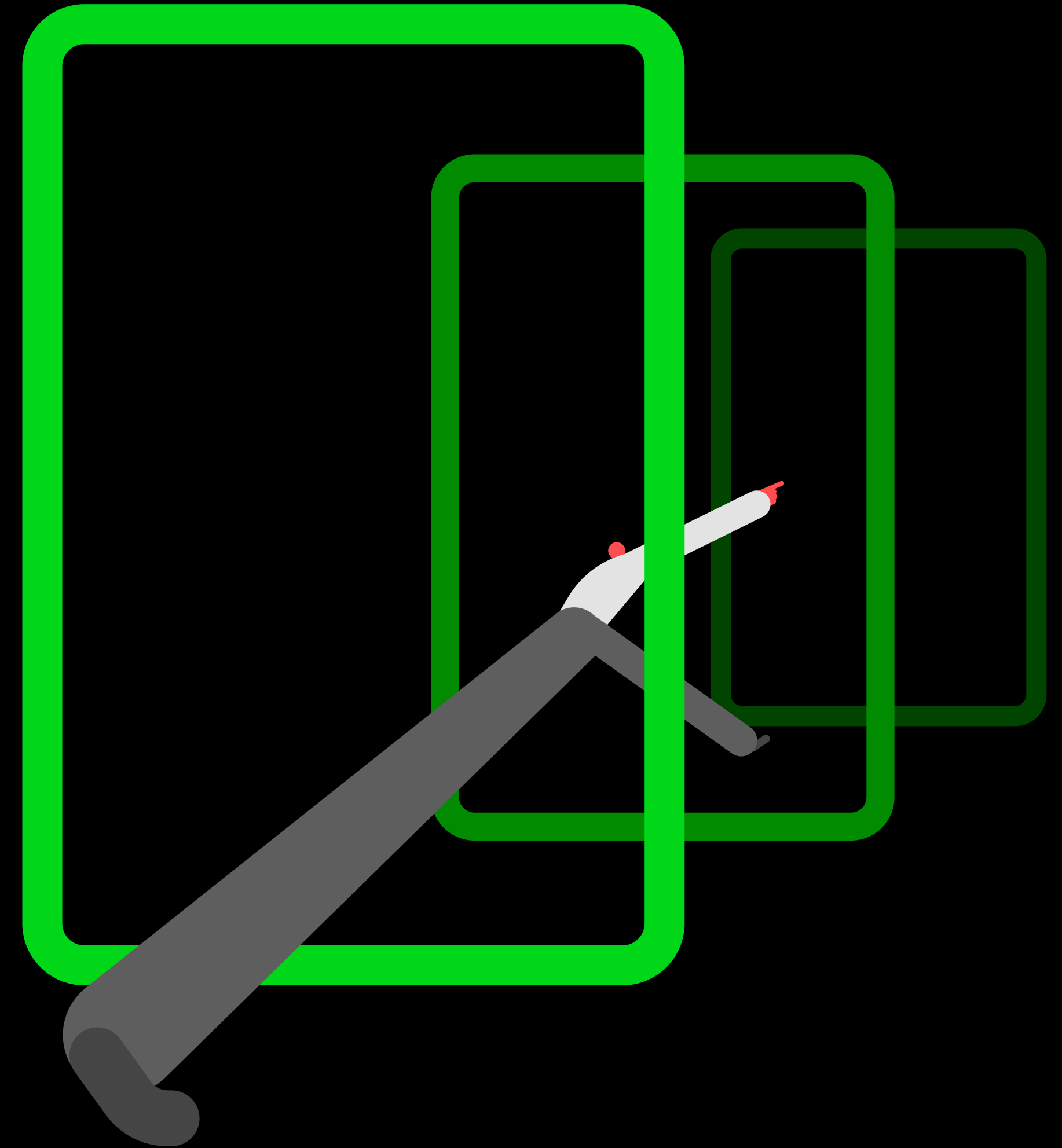
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# Introduction

Although most businesses strategically align finance and operations, as companies grow and mature, an inevitable gap develops between these and other functions. While tightly integrated at the start-up stage, the division of expertise needed to successfully manage growth leads to unique leaders for each function.

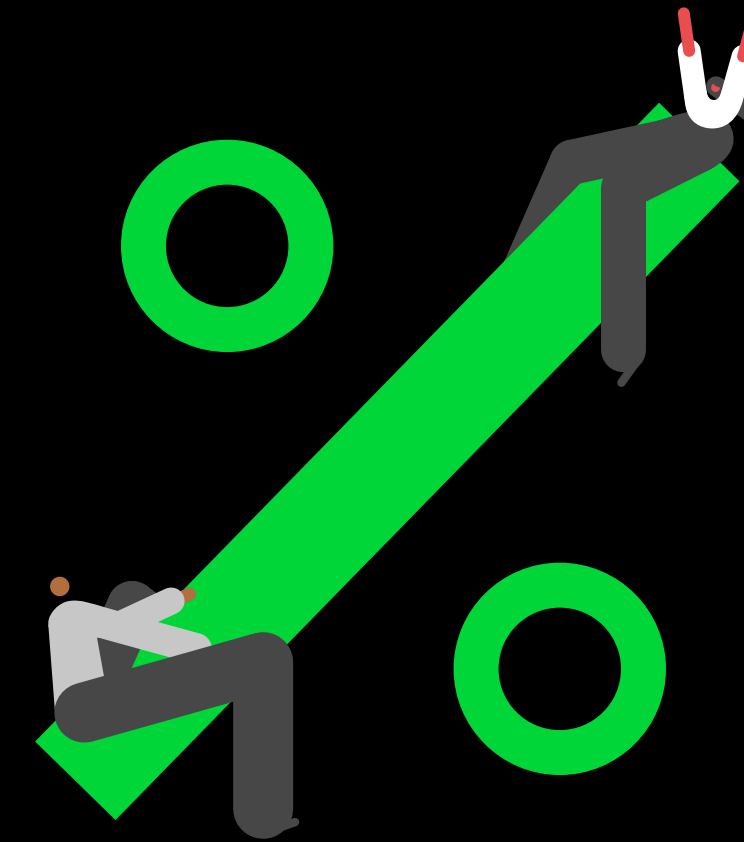
Let's look at the finance and operations gap in terms of:

- Causes
- Consequences
- Solutions





# Finance and operations gap—where's the disconnect?



Start-ups and small companies are less prone to a finance-operations gap than larger companies, often because the business leaders wear multiple hats. As companies grow, they typically add new leaders dedicated to a single function and add departments to support these, so hyphenated titles become the exception rather than the norm. As this happens, finance and operations teams talk less frequently and when they do talk, they're often using a different vocabulary. In addition to day-to-day accounting, finance leaders are focused on managing assets and liabilities, budgeting and financial planning

for the business. Operation leaders are rightly focused on the operations of the business and alignment with the business plan. Often, finance and operation leaders use siloed tech stacks and can't focus on KPIs outside their areas, for lack of access and a way to put data in context.

Common sense dictates cash flow influences how much inventory a company buys, and when. Operation leaders need to know how much working capital is available, so they can maintain inventory levels and make data-driven decisions. Likewise, finance leaders

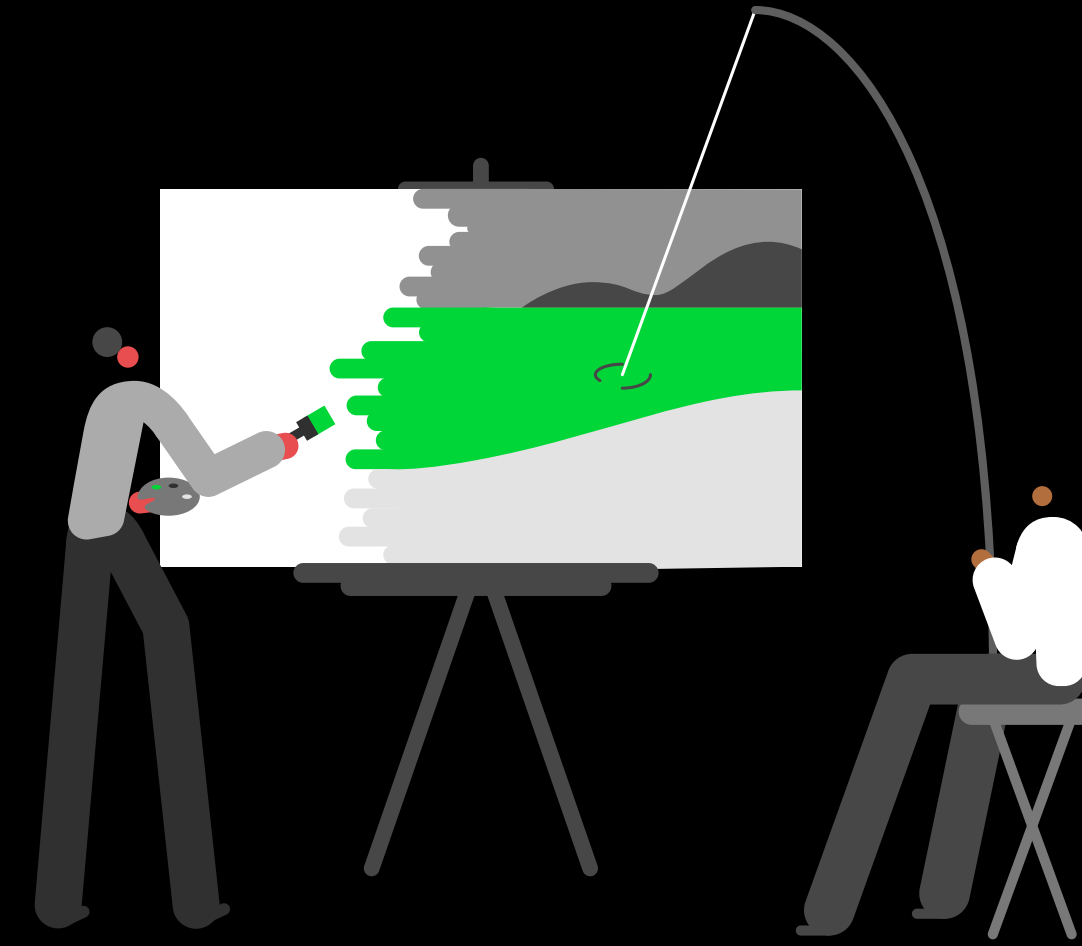
need to know what's going on in operations as that will affect liquidity. As well, the working capital of the entire supply chain can be just as important as an individual company since that can affect both operations and finance.

Knowing how much capital is available also impacts organizations where the inventory is human talent rather than goods. Operations needs to know if the company has the financial resources to recruit, hire, and train people—knowing in some cases it may be months before new hires are fully profitable.

The challenge is that the business models used by operations often aren't aligned with financial plans and forecasts. Operations uses applications in their tech stack that are disconnected from the finance tech stack, or worse is using standalone spreadsheets to create modeling scenarios.

In summary, two root causes for the disconnect are lack of communication and lack of visibility. This disconnection metastasizes over time as companies grow and add more trading partners on both the supply and demand side.

# Finance and operations gap—the consequences



The disconnection between finance and operations functions can have serious negative consequences on the health of a business.

For a company that carries inventory, lack of visibility between finance and operations might lead to:

- High carrying costs
- Lost sales
- Backorders
- Low profitability

- Unnecessary inventory reallocation between locations and entities

For other companies, it might mean carrying excess equipment or headcount, excess square footage, or excess cash outlay.

Without a tight integration between finance and operations, the company will have disjointed or disconnected responses to business opportunities and changes in market conditions. This leads to poor decision-making and lower margins. Missed revenue and growth opportunities often lead to recrimination, as business results aren't achieved. This, in turn, leads to loss of confidence in senior leadership, low morale

within the company, and higher rates of employee attrition.

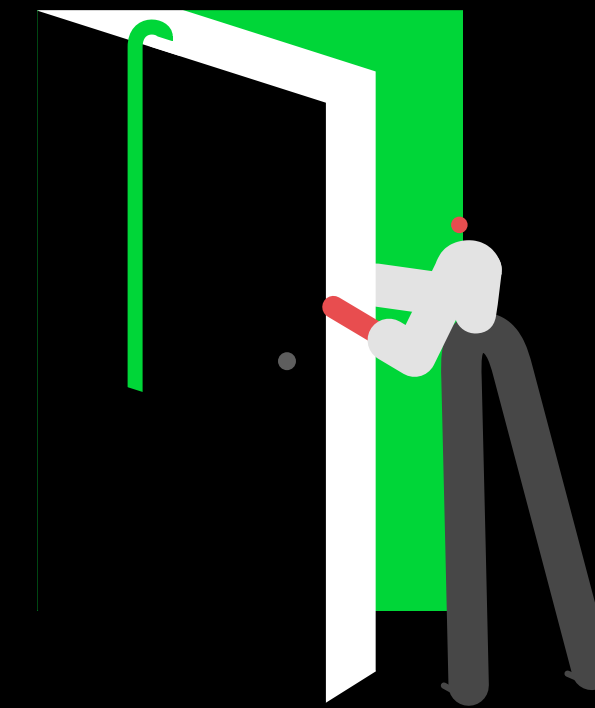
These consequences can be measured using key performance indicators that include:

- Time to market
- Net promoter score and percentage of repeat customers
- Changes to profitability
- Changes to costs
- Revenue per employee

- Asset utilization percentages
- Employee retention rates

If you have noticed negative trends in these areas in your company, one of the causes might be the finance and operations gap. Organizations need to operate cross functionally to identify new business opportunities, streamline operations, make sound decisions, plan, and improve profitability. Although the gap between finance and operations may seem unbridgeable, closing the gap can produce massive dividends.

# Finance and operations gap—the solutions



Bridging the gap between finance and operations requires a link that allows for two-way traffic.

Finance needs to provide solutions that link operational models to financial plans and forecasts while operations needs to understand how they impact the company's financials in areas that include:

Purchasing

- Shipping
- Production
- Processing
- Expense reporting

- Rates of return
- Depreciation
- Total cost of ownership

As well, both finance and operations must eliminate their dependency on spreadsheets for financial planning and modeling. These are often disconnected—residing in each respective silo—and are error-prone.

To close the gap, finance and operations must work together from a common platform so both are looking at accurate information from which they can make data-driven decisions. The platform must allow for:

- Visibility and roles-based access to information
- Continuous data flow between disparate systems
- Automation of business processes
- Interaction with customer engagement platforms
- Multiple entity or multiple location forecasting, reporting and analytics
- Actionable aging reports, credit limits and real-time credit controls
- Integrated payments

- Streamlined consolidations
- Multicurrency

A cloud-native financial management system can serve as the single source of truth, accessible by multiple persons, functions, departments, and groups. If the business doesn't have a financial view of day-to-day operations, it can't control spending or margins effectively. Keeping finance isolated in its own functional silo denies access to crucial transactional data that business managers need to inform their decision making. Every day that action is delayed has adverse effects on the bottom line and impacts competitiveness in fast-moving markets.



When financials run in the cloud, the data is available in real-time to stakeholders wherever they are. Even more valuable is the ability to combine it with operational data and business metrics. Putting finance into a business context allows far more accurate monitoring of how the business is performing. Metrics can be as diverse as customer acquisition cost, dollar churn, or even tracking specific assets or projects.

A cloud-native financial system that's designed to work in sync with other business functions can eliminate the need for workarounds and spreadsheets. Cloud-native systems connect easily and securely to other applications, especially customer-facing systems such as CRM and ecommerce. These automated connections bring data directly into the financial system for end-to-end processing, manipulation, and analysis. A cloud-native system also has the flexibility to run certain capabilities as built-in modules instead of requiring separate specialist systems.

Here are some of the many accounting software packages and financial management systems available.

## QuickBooks Desktop, various versions

QuickBooks Desktop is not a cloud-native financial-management system. It is bookkeeping software, designed to be installed on a server or single computer. Users can access the software in the cloud by paying an additional fee. While QuickBooks Desktop has some of the same functionality as modern cloud-native financial management systems, it does not stack up well in areas such as compliance, performance, scalability, and reporting. As well, each entity requires a separate instance within the business, so the chart of accounts is not consolidated, leading to disjointed data that will frustrate operations. QuickBooks Desktop is not a single source of truth, and it's difficult to share data without using spreadsheets.

## QuickBooks Online

QuickBooks Online is a slimmed-down version of QuickBooks Desktop available in the cloud. As such, it's not cloud-native, and it lacks much of the functionality found in QuickBooks Desktop. For example, it doesn't offer revenue recognition, sales order creation, order fulfillment, payroll and labor cost calculation, statement writing, and undeposited funds management. Like QuickBooks Desktop, QuickBooks Online is not a single source of truth, and it's difficult to share data without using spreadsheets.

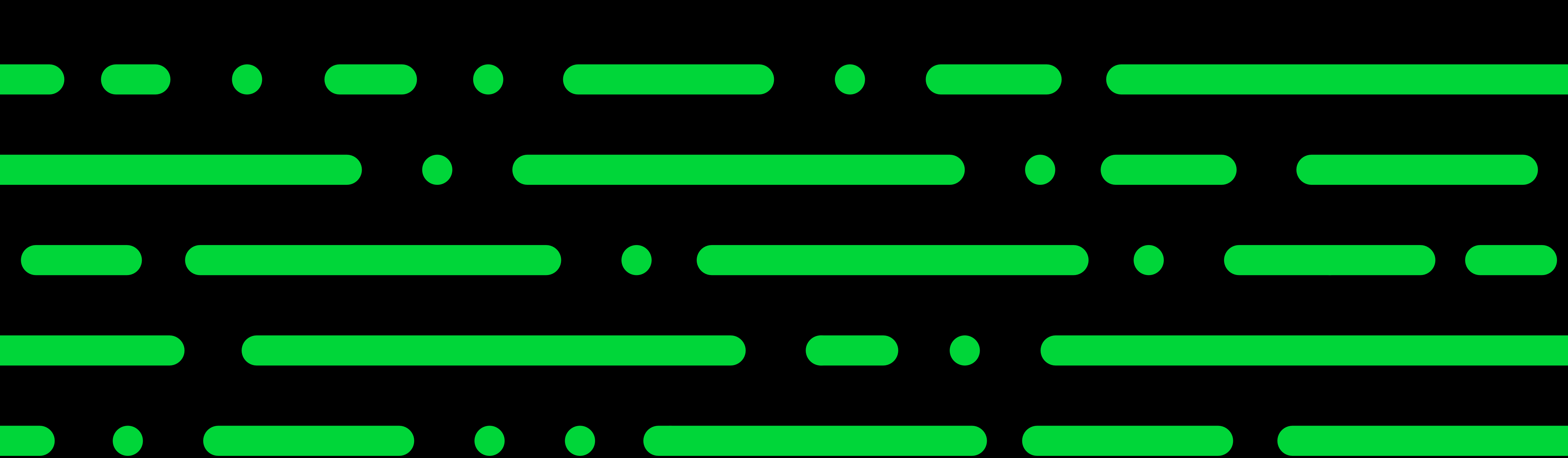
In a recent industry survey of QuickBooks users, 75 percent report that their reliance on spreadsheets while using QuickBooks is frustrating, and 30 percent found lack of data accessibility to be a major challenge.

## Sage Intacct

For executives at growing companies who want to make data-driven decisions, Sage Intacct provides real-time business insights. Sage Intacct is a true cloud-native financial management system, built in the cloud for the cloud. It offers functionality not found in the various versions of QuickBooks Desktop or QuickBooks Online in areas that include core accounting, data entry, inventory management, job costing, and reporting. Unlike QuickBooks, Sage Intacct easily handles multiple entities and currencies, simplifies reporting, closing, and audit preparation and helps finance executives share the data leaders need to make strategic business decisions.

The most recent Gartner Magic Quadrant for cloud core financial management suites rated Sage Intacct in the Visionary quadrant.

**By deploying a cloud-native financial system, finance executives can better bridge the gap between their team and operations. Using real-time data, both teams can more effectively make data-driven decisions to improve the health of the business.**



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