Retail CFO Study spots critical gaps

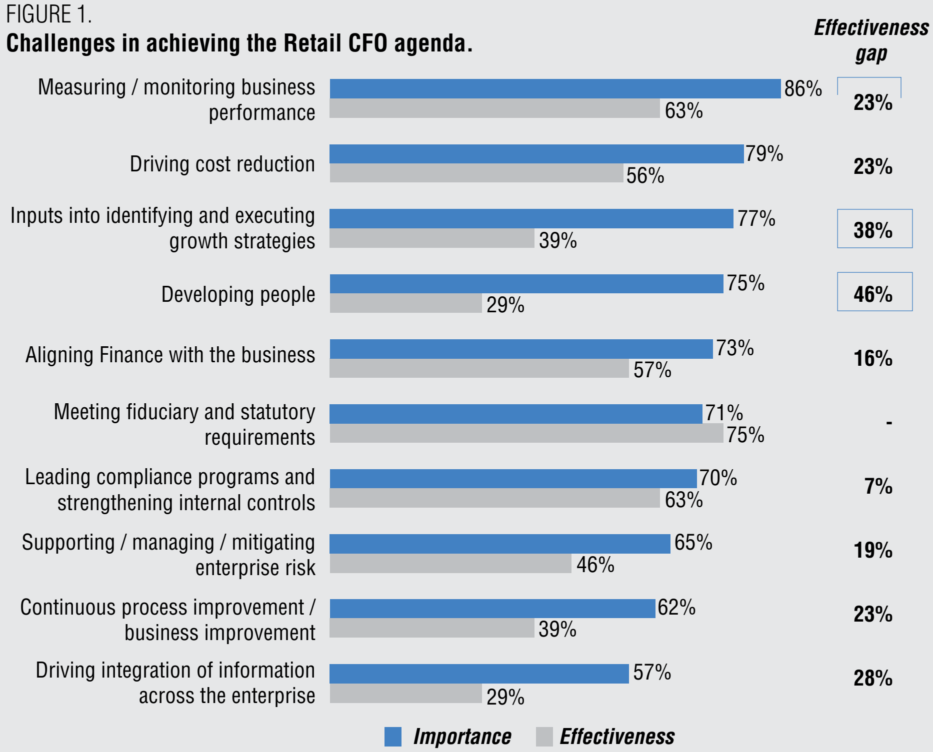
Information integration and risk management fall short

According to an IBM study of more than 1,200 CFOs and senior Finance professionals, very few organizations – in any industry – are prepared or flexible enough today.[1] For the retail industry, shaky consumer confidence intensifies the financial management challenges. Our study shows that retailers must address substantial gaps between what they recognize as important and what they are actually doing. To understand and serve their customers better, retailers must improve the level of information integration and manage risk more effectively, and above all, become better at turning customer specific data into insights and actions needed across all functions.

The study confirmed what many CFOs know – the Finance agenda is full and everything is important, making it very hard to prioritize. The retail industry is more or less in line with other industries, with top priorities that include performance management, cost reduction and growth strategies. However, similar to other industries, many significant gaps exist between the stated aspirations and the corresponding retail CFOs' execution of those objectives (see Figure 1).

For example, 77 percent of retail CFOs recognized the importance of providing *inputs into identifying and executing growth strategies,* yet only 39 percent were effective in doing so (a 38 percent "gap"). The biggest gap (46 percent) reveals that 76 percent of retail CFOs considered *developing people* as important, but just 29 percent rated themselves effective at it.

FIGURE 1.
Challenges in achieving the Retail CFO agenda.



Source: IBM Global Business Services, The Global CFO Study 2008.

Curiously, the study finds that two of the lowest ranked agenda items are the key differentiators for financially outperforming firms: *integration of information across the enterprise* (62 percent) and *supporting / managing / mitigating risk* (66 percent).[2] Compared to others in our sample, the firms that are *highly effective* in these two categories had nearly double the five-year compound annual revenue growth and over 30 percent greater stock price appreciation.

Integrate information and manage risk

Surprisingly, in a highly customer-focused industry, we also observe that only 27 percent of retail CFOs regularly report on the customer dimension, compared to 38 percent for the global average. Obtaining a single view of the customer, and having useful customer segments requires effective integration of both financial and non-financial data.

Our recent customer segmentation research shows that creating customer Advocates provides dividends.[3] Retailers with the most Advocates typically had either the greatest comparable store sales or gross margin return on inventory or both. In addition:

- Customer advocates spent more with their primary retailer (average of 17 percent)
- Over a two-year period, 41 percent of the Advocates increased their spending
- Advocates spent a greater share of their wallets with their primary retailer (average of 21 percent)

Customer advocacy is predicated on developing solid shopper insights. As a result, retail CFOs need to determine Finance's role in helping the enterprise integrate disparate sources of financial and non-financial data to better understand their customer dimensions.

Most retail CFOs are relatively influential and uniquely positioned to contribute to the dialogue. Compared to other industries, they are more likely to be part of the top management team, interacting with the Board and helping to set the firm's strategic direction. Finance tends to be a key analytical engine for the enterprise. In that role, CFOs are often the "truth owners," able to shape operational decisions and strategic direction with fact-based analysis. At the core, outperformance and risk management are about getting to the truth, a single set of facts about the business that reflects the reality of the enterprise's performance.

Findings also suggest that enterprises are looking to the CFO for leadership in risk management, even more so in retail than other industries. CFOs are uniquely positioned to see across the enterprise and to help guide the top-down direction of the overall enterprise risk profile. Leading industries use their performance management tools (such as predictive analytics and historical comparisons) to manage risk, but retail tends to lag in adopting such tools.

What retail CFOs must do

From the study, we find retailers need to catch up to other industries concerning how thoroughly they report on the customer dimension, and in the implementation and use of risk management tools. Retail CFOs are invited to strategic discussions more often than their peers in other industries. Their firms are looking to them to deliver.

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References

1 Rogers, Stephen, Stephen Lukens, Spencer Lin and Edwina Jon. "Balancing risk and performance with an Integrated Finance Organization." IBM Corporation. October 2007. www.ibm.com/services/gbs/cfostudy

2 We wanted to ascertain whether the choices CFOs were making about particular approaches to financial management and key enablers had any correlation with financial performance. We looked at a subset of our sample where publicly reported financial information was available. By taking a five-year view, we were able to identify which companies outperformed and underperformed the average compound annual growth rate (CAGR) for revenue and stock price appreciation.

3 Boyce, Maureen Stancik and Laura VanTine. "Why advocacy matters to online retailers: Customer focus can mean greater loyalty and financial returns are in store." IBM Institute for Business Value. April 2008. http://www-935.ibm.com/services/us/index.wss/ibvstudy/gbs/a1029604?cntxt=a1000063

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