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Return on Partnership The CFO point of view

RoP
Whitepaper
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Bottom-line results matter

The current economic environment is one that allows for much smaller margins of error as many companies need to protect their bottom-line results in times of uncertain political and economic outlook. For those companies, this means a constant re-evaluation of business processes and cost structures both from an internal point of view as with their external partners and suppliers. This has awakened the Chief Financial Officer to seek for opportunities for an increased alignment between procurement, operations and the finance function.

And as a necessity for the Chief Financial Officer, Return on Partnership will undoubtedly become part of a new Return on Investment as a way to ensure sustainability of the companies' so important bottom-line results.

The CFO and vendor management

Traditionally, the Chief Financial Officer has always assumed a 'second line of control' role when it comes to managing vendors, service providers or business relationships. More specifically, the CFO's accountability in the vendor management domain relates to:

1. Invoice matching: the finance function reconciliates vendor invoices against purchase orders, either manually, automatically or even some through advanced Robotics Process Automation solutions;
2. Budget consolidation: the finance function captures overall external expenditure per business unit and accrues such external costs in the general ledger so the CFO can present a consolidated companywide financial and budget tracking view towards board and decision makers;
3. Corporate tax management: the CFO ensures for an optimal corporate tax scheme by releasing tax related guidelines and policies for vendors, service providers or business relationships engaged by the company.

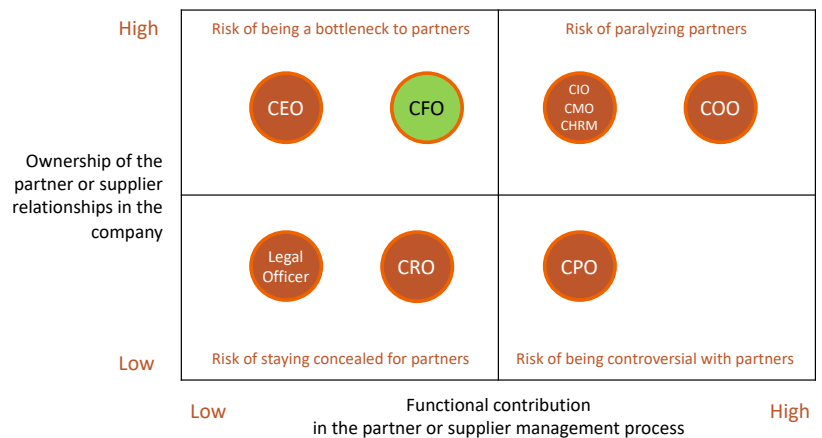
Return on Partnership is the new Return on Investment and requires company wide innovative Supplier Relationship Management.

But when it comes to contributing to Return on Partnership with vendors, service providers or business relationships, the CFO is often perceived as a **bottleneck** with such external partners for two reasons:

1. By nature the CFO is, with its finance and signing authority function, mandated with an implicit companywide ownership for all external relations the company is engaged in. And although the contract ownership typically resides with the business unit managers (like a facility manager, CMO, CIO, CHRO, etc), the CFO will as a board member be accountable for the company's financial exposure and liability associated with these contracts. So in its second line of control advisory role on how to mitigate the financial exposure and liability involved, the CFO may be one of the reasons why board decisions already take longer;
2. Additionally, the CFO is not expected to take a leading role in the functional design and execution of the company-wide supplier relationship and vendor management process (SRM). This because a CFO led SRM process will by nature be finance control driven, result in additional decision delays and in the end be a true bottleneck for the company.

Organizations that have invested in setting-up and managing a companywide Vendor Management Office get their return and insights within months.

Partner Relationship Quadrant for C-suites*



* Partner Relationships are professional engagements and contractual collaborations to be managed through a vendor, partner or supplier relationship management process

Realizing return

So it is strongly advised that the CFO adheres to its second line of control role when it comes to assessing information on the external partner relationship status and overall health to ensure the company's bottom-line results. This will avoid an increased negative perception of the CFO being an SRM bottleneck. Companies that have invested in setting-up and managing a companywide Vendor Management Office (VMO) get their return within months in terms of collaboration efficiency, elimination of wasted effort on futile finance or budget escalations and even get direct gains from better external partner performance, value contribution and trust.

In this Vendor Management Office, the CFO can create Return on Partnership when realizing and increased alignment between the procurement and finance function. Ensuring bottom-line results is only possible when the finance function can plug into the companywide supplier baseline information database and more specifically plug into the supplier contract repository, the supplier relationship status, the supplier contract health status based on relationship indicators & control objectives and finally the outstanding actions and progress of improvement plans with the supplier.

This connect ensures a 'closed loop' information feed from contract signature to contract renewal including all supplier relationship activities in-between. Only then, the companywide VMO can perform well and the CFO can assume its second line of control responsibility next to his colleague C-suite executives.

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