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Real Estate Finance Function Effectiveness – How do you compare?

Real Estate Finance Function Effectiveness Benchmarking Insights Report

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Foreword

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The Australian economy has continued to experience significant challenges over recent times as a result of the decline in the resources sector, GDP growth remaining below trend, a significant decline in the currency, cash rates at all-time lows and a general level of uncertainty in the system. The continued digitalisation and disruption across multiple industries has resulted in customers demanding more at a lower cost.

In this environment, while organisations are continuing to look for growth in both traditional and new areas, through innovation, there is a continued focus on cost reduction and process and control optimisation.

This economic trend has led companies to challenge their operating model and focus on doing things differently in order to achieve a lower cost finance function solution that delivers enhanced value to the business.

In the Real Estate sector, organisations are investing in technology, are focusing on their operating models and are looking at offshore outsourcing arrangements in a bid to reduce their cost bases.

Our clients globally have been seeking guidance from PwC to understand how they can create a finance function in this environment that is fit-for- purpose, is cost effective yet acts as a strategic business partner.

To help address this we have developed a Finance Function Effectiveness Benchmarking tool which uses a standard taxonomy to compare participants across the main areas in which Finance delivers value to the business - *Business Insight, Compliance & Control* and *Transactional Efficiency.*

In addition to highlights from our global survey, this report contains our overall findings across the Real Estate industry in relation to these three areas and also the key enablers to a successful finance function- people and technology.

In Appendix A we have included a list of key metrics and how the top performers compare relative to average performers. Together, these statistics allow companies who did not participate in the survey to consider how they compare.

The report not only discusses what defines 'excellence' now, but how to keep ahead of the accelerating pace of change in relation to how businesses compete and what they expect from their finance teams.

Whilst the report shows that there is a relatively large range of results across the participant base, it also highlights that all companies, even those that are leading the charge, have an opportunity to continuously develop and enhance the structure and value of their finance function.

By doing so, the finance function has the opportunity to be elevated from a compliance function to a strategic function that is deeply involved in generating real-time data and analysis to influence business decisions – a win for the business and your finance team.

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1 Our approach to benchmarking

As your finance function seeks to keep pace with mounting business and regulatory demands, our benchmarking analysis provides a clear assessment of strengths, weaknesses and areas for improvement, and establishes a baseline from which to build the business case for change and measure progress.

The approach focuses on the critical data, rather than extensive data requests, and is designed to be completed quickly. Tools are provided to make sure that data is consistent, and to be extracted directly from participant's systems where appropriate.

Our approach to benchmarking continues to evolve, as in addition to performance evaluation and comparison, participants increasingly ask for insights on why they may be underperforming and how they can improve.

The analysis combines a qualitative assessment and comparative metrics across the dimensions of business insight, efficiency and compliance and control.

Transactional efficiency analyses transactional processes using a range of key determinants including cost, speed, quality and process complexity.

Compliance and control examines the effectiveness of the controls framework, and the cost and efficiency of controls.

Business insight focuses on finance's ability to guide the business. The benchmark assesses factors including the proportion of finance effort spent devoted to business partnering, time spent on analysis versus data gathering, and an assessment of the quality and impact of processes such as budgeting and forecasting.

Peer group data

In compiling the Real Estate finance function effectiveness benchmarking we have obtained data from a cross industry peer group of global companies. The companies chosen are similar in size and complexity with the peer group median results being normalised (i.e. scaled) and compared to the top quartile results across the entire local and global population.

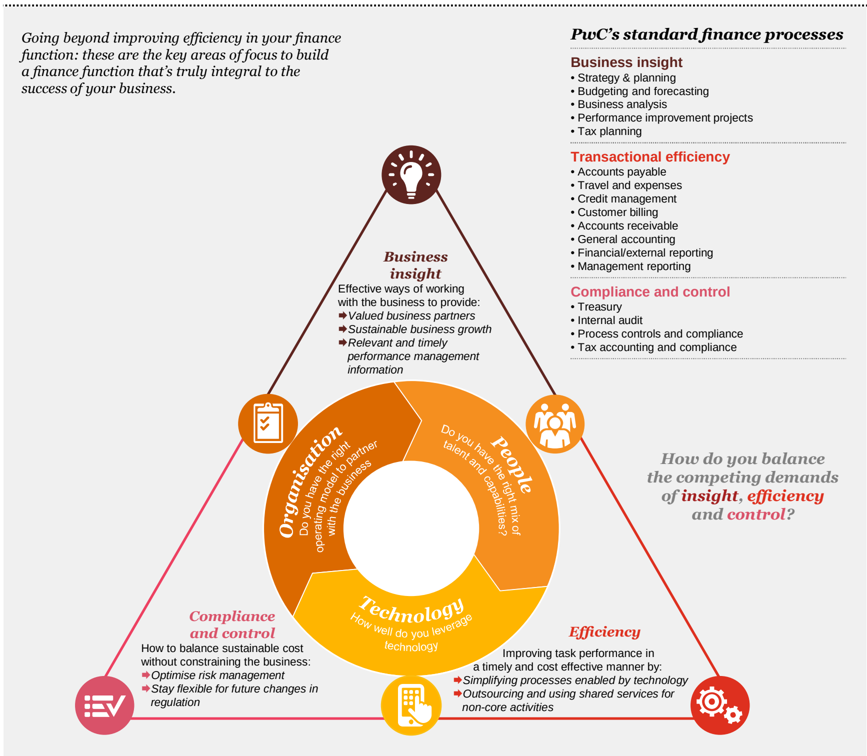
Whilst the majority of the peer group has operations which generate revenues from underlying funds or Joint Ventures, these revenues are not taken into account in selecting the population.

How can the results be used

The benchmark results are best used to raise questions and challenge current performance levels rather than to provide definitive answers. The goals of the benchmark are to:

- Provide a baseline of current performance against a robust framework and a set of metrics;
- Understand where the finance functions are today, what is good practice and use this to identify opportunities for improvement.

PwC's finance assessment framework



2 Global benchmarking trends

Our global benchmark data reveals that cost-efficiency is improving across the board, particularly within top performing finance teams whose average finance cost as a percentage of revenue is continuing to decrease below pre-crisis levels.

In 2015 PwC conducted its sixth global annual finance function effectiveness benchmarking study. The study draws on more than 400 PwC benchmarking engagements across a broad range of industry sectors. These benchmarking engagements provide our clients with a detailed and comparative 'health check' for their finance teams.

Taken together, these engagements enable us to build up a comprehensive, global set of quantitative data and qualitative insight, consisting of:

- 5,600+ individual finance teams
- In more than 100 countries
- From over 400 companies

Further analysis and insight comes from interviews with over 100 finance leaders and PwC subject matter experts across the Americas, EMEA and APAC.

Opportunities exist across all industries to enhance the effectiveness of finance functions

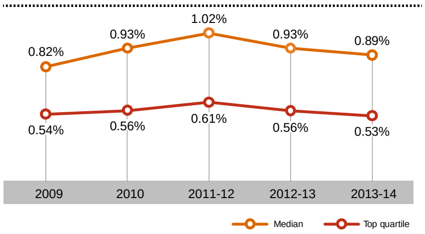
Our global findings indicate that the demands of different industries drive the cost of finance and necessitate creative and targeted solutions to moderate expenses. High transactional volume and low margin industries such as retail have inherent advantages in being able to keep the costs of finance low.

At the other end of the spectrum, financial services organisations typically see finance costs three to four times higher than the lower cost industries as they deal with the consequences of regulation. Importantly, however, whether a high-cost or a low-cost industry, the gap between average and top quartile is often similar, and the opportunities to address cost are just as significant.

...There is no silver bullet

Our latest global report shows continued progress on cost over the last 2 years (see Figure 1 below).

Figure 1: Finance cost as a percentage of revenue

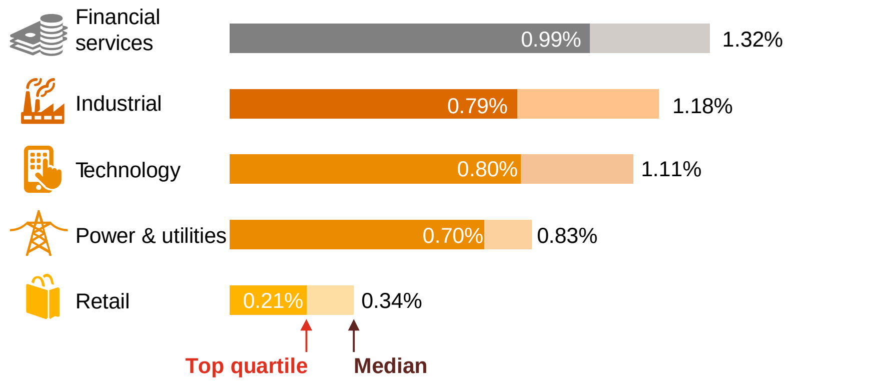


Source: PwC 2015 Global finance function effectiveness benchmark data

Although finance functions will always require significant investment, the fact that top quartile costs as a whole are 40% lower than average performers indicates that some organisations have been able to better manage finance costs relative to the population surveyed.

Overall, our findings indicate that there is no silver bullet to managing these costs- rather top performers use a range of methods including automation, shared services and more efficient use of capacity.

Figure 2: Cost of finance for selected industry sectors



Source: PwC 2015 Global finance function effectiveness benchmark data
Note: Cost of finance as a % of revenue

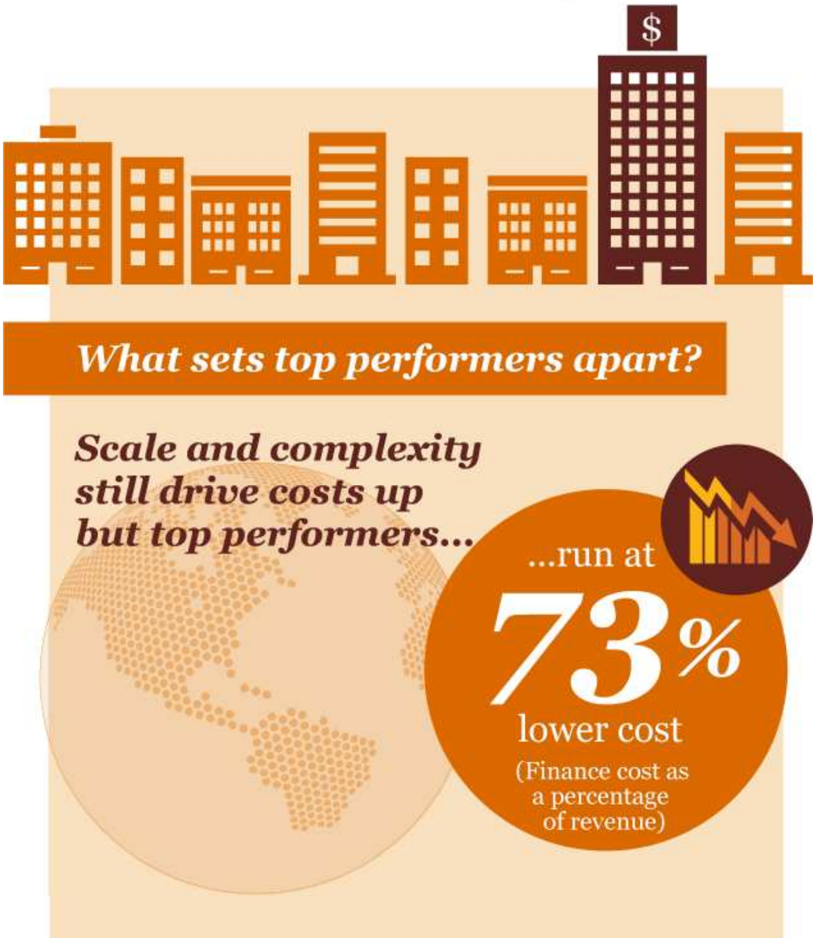
3 Overall trends: what sets top Real Estate performers apart?

"Clients increasingly ask for insights on why they may be under-performing and how they can improve."

Cost-efficiency: A combination of automation, more efficient use of capacity and shared services or outsourcing means that the cost of finance as a percentage of revenue is 73% lower in top quartile finance functions.

Faster turnaround: Budgets are delivered 5 days faster by top performers than average companies. Expensive and unwieldy IT infrastructure is giving way to more flexible, adaptable and easily updatable platforms.

Leaner operations: Front-runners recognise that the benefits of lean processes can only be achieved if the foundations of automation, standardisation and rationalisation are in place.



Source: PwC finance benchmark data

Top performers are also looking beyond systems and processes at ways to foster better understanding of user needs to reduce waste and cut down on repetition, duplicative work, and errors.

Sharper insight: While the proportion of finance staff in business partnering roles has remained much the same, top performers see finance professionals spend more time on analysis as opposed to just gathering the data. The quality of what they deliver is also more highly rated. Why?

1. Insight professionals are paid more and are worth more, but fewer are needed;
2. Recognition of the need to look beyond routine budgets and forecasts towards a more radical and challenging view of business threats and opportunities;
3. Helping the business to identify priorities and cut out needless reports;
4. Close collaboration with the business to ensure data quality and consistency;
5. Investment in technology to speed up analysis and delivery of management information and
6. Use of visualisation. Globally we are seeing on-the- go tablet communication to bring management information to life and make it more accessible.

4 People & Technology: the enablers to a successful finance function

People and technology are the key enablers to achieving a successful finance function. Best in class operators invest in both of these areas to ensure that they have an appropriate foundation to support them as their business matures through the cycle.

Investing in your team

Employees are the bedrock of most organisations with salaries and wages often being one of the largest cost base across most industry sectors, including the Real Estate sector.

Keeping employees engaged and fostering a culture of innovation and excellence are common themes senior management teams deal with on a regular basis.

Employers with a strong employee brand, active management of talent in career development and satisfaction surveys are better positioned to refresh the workforce and ensure that valued employees are stimulated, loyal and performing to their full potential.

Interestingly 33% of surveyed participants rarely or never perform employee satisfaction surveys- a telling sign of the quality of the relationship between senior management teams and staff.

Best in class performers focus on empowering their teams and transforming how they are managed. Focusing on these areas leads to increased capacity, quality of work and ultimately- customer satisfaction.

Top performers experience 8% turnover of staff compared to average performers who experience 14% turnover

Investing in your technology

81% of CEOs believe technology advancement is the key global megatrend that will transform businesses over the next 5 years.

Business leaders report that investments in digital technologies have created value for their business in a range of areas including innovation and customer satisfaction. Figure 3 highlights that most CEOs see data and analytics technologies as generating the greatest return for stakeholder engagement.

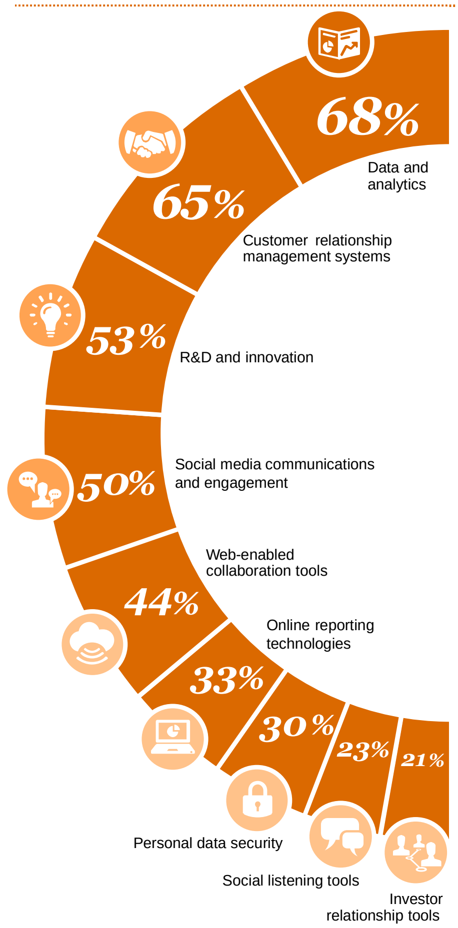
The digital revolution means that finance technology is not only becoming more advanced, but cheaper to acquire and more accessible and interactive in its use. Leading organisations are now understanding the drivers of performance and are identifying business opportunities that would not have been visible previously. Businesses not doing this now will be left behind.

Tablets and smartphones, cloud computing, very high-speed network infrastructure and online collaboration, have all opened up new ways for finance personnel to interact with the data, their customers, and each other. We now operate in a digitally immersed business environment and that has important implications for finance functions.

Top performing finance teams are today using these technologies to open up new styles of working that are more flexible and a better fit for certain segments of the population. Mobile computing and online collaboration tools allow greater freedom for finance personnel to work any time, any place, rather than being chained to a traditional office setting. That flexibility in turn reduces turnover among key segments of the finance population.

Figure 3:

Q:Select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders



Cross functional transformation

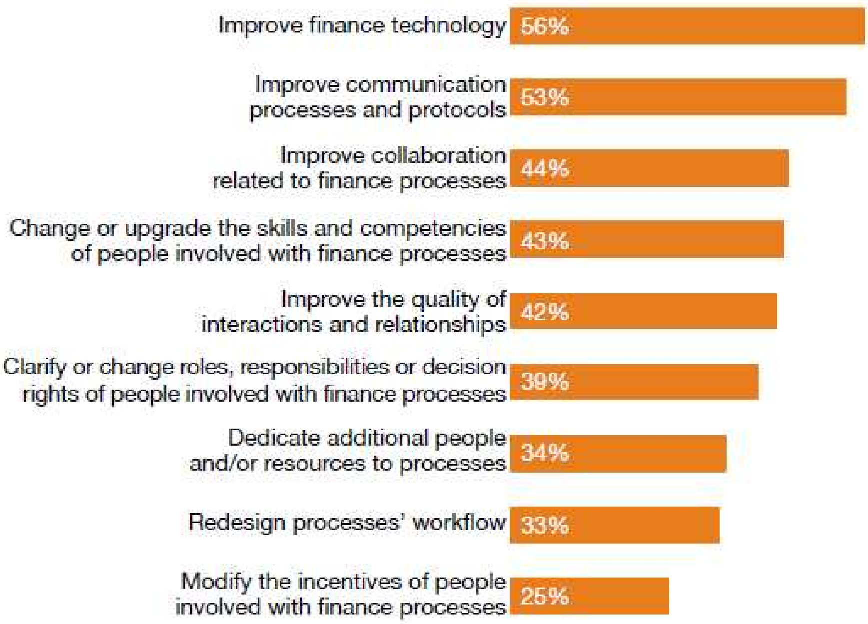
The close understanding and collaboration between finance and other functions is a key feature of top performing finance teams.

This integration at all levels of the organisation stretches from the efficient and timely processing of functional information to the exploration of data-driven insights that move the business forward.

Increasingly, organisations are turning to finance professionals as they consider transformation processes. As technology continues to advance and businesses demand more flexibility, efficiency and capability from their people, transformation projects often require the coordination of finance, IT and HR departments to ensure their success.

In order to be successful, business transformations should align all support functions around common organisational goals, as well as internal stakeholder needs. Support functions need to work together, sharing information and processes. They also need to reallocate existing tasks to the most efficient location and use the latest technologies to improve processes, reduce costs, and make better decisions. Finance professionals recognise that the nexus of improved technology, communication, and collaboration is critical if they are all going to be more effective in carrying out their functions (see Figure 4).

Figure 4: Which of the following do you believe would make finance processes more effective?

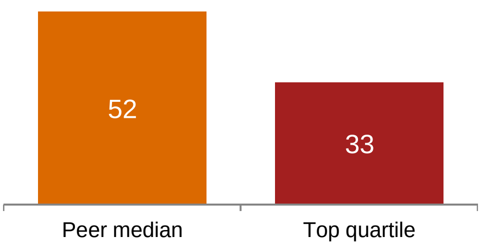


5 Trends in Transactional Efficiency processes

Transactional efficiency processes are often referred to as the "core but low impact" tasks associated with a finance function. Despite this, these processes are integral to the finance function as a whole and if performed well and efficiently they can add to a sound foundation from which the finance function can add significant value to your business.

Our data shows that there is a 70% differential between transaction efficiency cost as a percentage of total finance process costs for top performers relative to average performers. This is largely driven by the differential in full time equivalent employees as highlighted in the graph below.

Transactional efficiency FTEs per $bn revenue



Enabling technology

The best in class leverage technology to increase the efficiency and effectiveness of the function. The technology systems used automate processes and eliminate unnecessary steps in underlying processes – limiting the chance of errors and increasing the timeliness and quality of data.

Consistent and clear business processes

Companies that apply best practices create clear and consistent business processes for all finance related activities with the goal of eliminating redundant and non value adding steps by constantly identifying process improvement opportunities. Strong finance processes ease transaction processing, speed the identification of errors or process breaks and facilitate the consolidation and close process.

Leading companies approach process improvement as an ongoing continuous end-to-end component of finance management. When designed and supported by enabling technology, consistent and clear processes enable the shift from a finance function focused on transaction processing and error resolution to a quality-driven, value adding strategic partner.

Outsourcing standardised processes

Over the past five years we have seen a wave of restructures and reorganisations within companies in the market with a bid to outsource standardised processes and retain quality staff to perform value added activities.

Outsourcing processes which was once limited to the "top end" of town is now becoming common place with over 14% of average finance function costs spent on outsource services.

Importantly, we are finding that appropriate investment in ensuring strong controls and review processes exist internally is imperative so that the business has the ability to have accurate data to make business decisions.

6 Trends in compliance and control processes

On average, the compliance and control function makes up 33% of total finance function costs. In the context of the changing regulatory environment the effectiveness of the compliance and control function is increasingly important.

In recent years we have seen regulators have increased expectations of directors and management in relation to the way in which compliance is managed in a business.

Typically regulators look for formal documentation of obligations, process and controls to show how regulatory requirements are managed.

The banking industry has been on the forefront of these changes in regulations and companies within this sector have invested heavily to develop a relevant framework within each business to manage compliance and controls effectively.

3 Lines of Defence – effective use of compliance in the organisation

To help address these increased expectations, a number of organisations that participated in the benchmarking survey have moved to or are considering moving to a “3 Lines of Defence” model. The 3 lines of defence model aims to provide assurance to the business and the Board that the various risks within an organisation are being managed and reported appropriately.

In its simplest form we would typically see the following:

The lines together create a simple framework for managing risk in an organisation and, if adopted effectively, should result in a simple and transparent process which is flexible enough to quickly incorporate changes in the business and be picked up by new team members.

In our experience risk and compliance should not be the role of the compliance function; it needs to be embedded into day-to-day business operations in order to be effective. The 3 lines of defence model is made effective by pushing the risk and compliance ownership back to the business.

The compliance role should, however, not only focus on providing oversight, rather it should be rigorous enough to ensure that appropriate monitoring occurs.

By redirecting the compliance team’s efforts onto monitoring and managing risk there will be more opportunities to limit the risk of non-compliance, increase the value generated from the compliance team and reduce the cost of the function overall.

7 Trends in Business Insight processes

Finance functions that serve as value-adding partners have a solid understanding of the business and enhance the ability of leadership to understand and manage risks and value drivers.

Leading finance functions challenge business units and manage performers to optimise value and boost financial performance.

Some measures of success in this area include:

* Number of finance staff who have an indirect reporting responsibility to business units;

* Percentage of staff evaluated for their ability to create long-term value;

* Number of collaborative projects.

Our benchmarking survey shows that 33% of survey participants have responded that finance plays no role in the strategic planning process. This creates a real opportunity for companies to relook at the finance function's purpose in this space and to redefine its role which will enable a better outcome for the business as a whole.

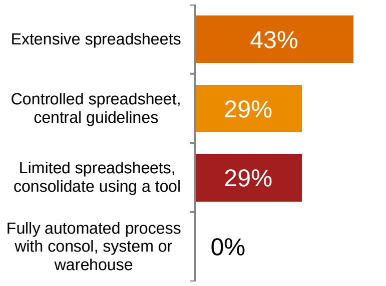
Embracing technology

Interestingly we have seen that the top quartile of participants have 36% less full time equivalent staff working on processes relating to the business insights area relative to the average surveyed.

The differential is largely within the budgeting and forecasting functions where there is a 34% differential between the top quartile and average performers.

The technology infrastructure supporting the budgeting and forecasting processes is at the core of the function. The graph below shows that 43% of participants use extensive spreadsheets in performing budgets and forecasts- increasing the need for manual manipulation of data, time spent on completing budgets and forecasts and the risk of errors.

Budgeting and forecasting technology infrastructure



The finance function of the future will need to embrace technology in all finance related processes- especially in business insight functions so that real time data can be gathered quickly in order for business decisions to be made effectively.

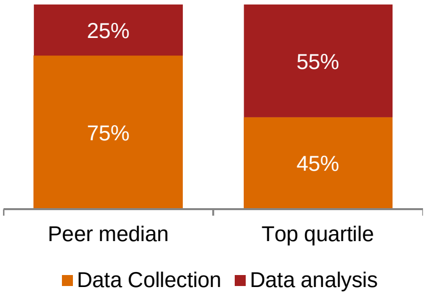
Time spent collecting versus analysing data

The majority of participants have a high reliance on forecasts with participants reporting some material difference resulting in forecasts generated.

There is a significant investment made in the budgeting process for all participants however the top quartile complete the budgeting process 5 days earlier than the average performing participant.

As can be seen from the graph to the right, there is a significant differential, however, in the percentage of time spent collecting the data in comparison to the time spent analysing the data between the top and average performers.

% time spent data collection vs. data analysis



Globally, we are seeing advances in automation, the standardisation of data, and innovative and low-cost data analytics tools are reducing the time spent on data gathering. At the same time, we're seeing companies emphasising the importance of data analysis. These factors are allowing teams to turn greater attention and time to analysis and generating insights.

Appendix A Real Estate Benchmarking Participant Metrics

To help you gain some insight to assess how you compare relative to the participants of the Real Estate benchmarking exercise we have included below a summary of key metrics and the relative performance of top quartile and average participants.

	Metrics	Peer Median	Top quartile
Transactional Efficiency	Process costs as a % of revenue	0.71%	0.42%
	AP invoices processed per FTE ('000)	6	11
	AP Invoice error rate	2.0%	1.0%
	DPO average	30	34
	DSO average	15	12
	AR error rate	1.0%	1.0%
Control & Compliance	Control & Compliance FTEs per $bn revenue	17	12
	Process costs as a % of revenue	0.33%	0.18%
Business Insight	% of time spent data gathering vs analysis	75%	55%
	Elapsed days to complete budget	100	95
	Average number of budget iterations	3	3
Technology	Number of ERP instances	2	1
	Number of charts of accounts	1	1
	Average number of days for month end close	6	5
People	Average remuneration- Transactional Efficiency	$120,000	$94,000
	Average remuneration- Compliance & Control	$172,000	$139,000
	Average remuneration- Business Insight	$186,000	$153,000

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