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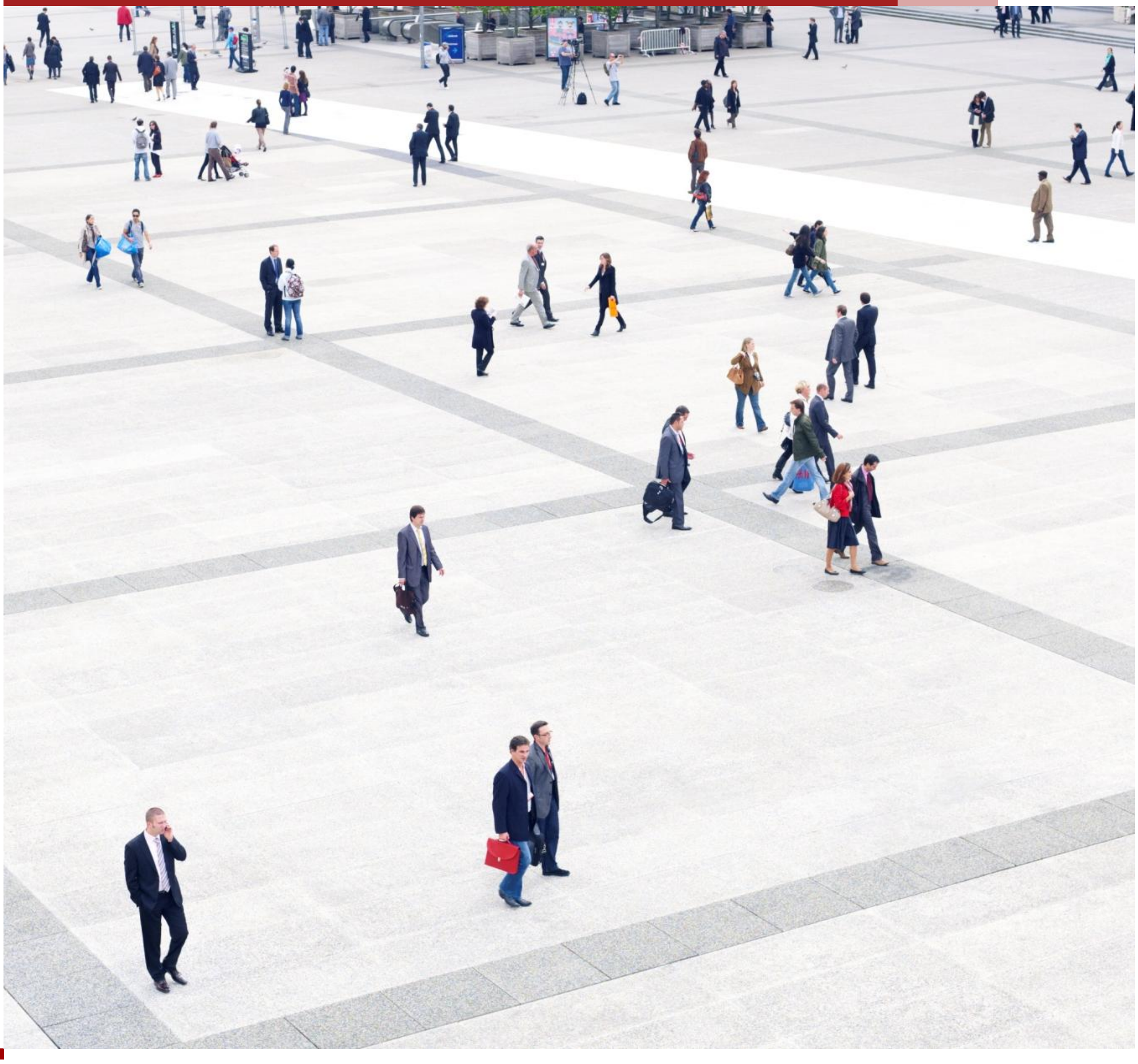
Benchmarking Insights Report

How do you know if you lead or follow?

Executive summary

April 2013



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Foreword

Peter van Dongen
Assurance Leader

"How do we compare?"

As auditors, it's a question we're asked a lot, and it's a question we've sought to answer in our fourth annual benchmarking survey.

The following pages provide a summary of data collected from 129 organisations representing the full spectrum of Australian business, from local media companies right through to multinational consumer goods companies.

We asked questions about the efficiency of finance functions, board reporting, capital management, cash collections and cash flow, budgeting processes and forecasting, and took an indepth look at how much the finance function really costs. We also examined approaches to people management and policies, and topical areas that go to the heart of today's business agenda: cloud computing, outsourcing, and carbon pricing.

And what did we find?

We found that there was a wide gulf between the front-runners and typical companies, which represented the bulk of the organisations we surveyed. Front-runners are providing more useful insights and analysis for management in less time, making better use of their resources, and managing risk in a more informed and assured way.

Based on the survey results, leading organisations:

- produced a consolidated month-end finance report in 7 business days
- spent 20% less time gathering data
- initiated and finalised the annual budgeting process within 30 days.

If that doesn't sound like your organisation, PwC's Benchmarking Insights Report can help you build a compelling business case for change.

If you would like to discuss the summary or the detailed survey results, please speak to your PwC representative or one of the experts listed in our contacts section.

Thank you.

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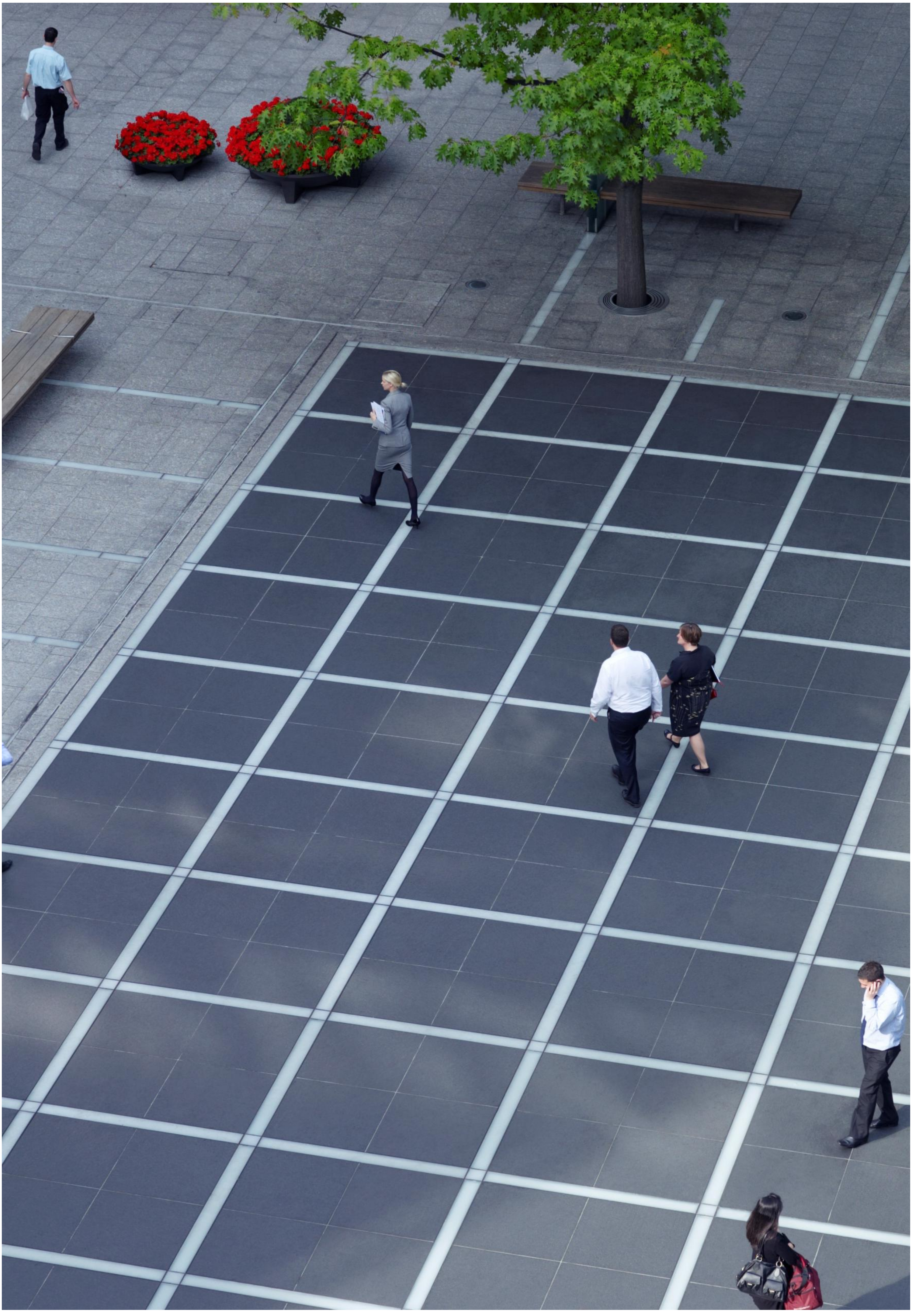

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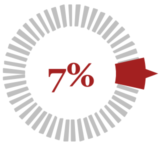
7 days top quartile survey respondents are completing the close-to-report cycle in 7 days



of respondents process more than 10,000 manual journals in a year

of respondents review board reports against strategic imperatives on an annual basis

of respondents have no cash collections policy

Reaping the benefits of a smart, efficient close-to-report cycle

There are significant opportunities to further reduce the time it takes to close the books each month and report to senior management and the board. Highest quartile respondents (top performers) complete the close-to-report cycle in 7 business days, however leading trend organisations are able to produce consolidated reports in just 5.

Organisations that process a high volume of manual journals have the biggest opportunity to make their close-to-report cycle more efficient, as manual journals are time intensive and complex. The survey results revealed 7% of respondents processed a substantial number of manual journals in a year (more than 10,000).

Is your board reporting aligned with your organisation's strategy?

Reporting that is aligned with strategy is essential in supporting effective business decisions. A large majority of respondents review this alignment on a regular basis, and 25% review it annually.

Is processing efficiency affecting your overall working capital position?

Maintaining a good working capital position is hugely important in a volatile market; ensuring the accounts receivable team is adequately resourced and trained is fundamental to this.

The survey revealed 40% of respondents corrected bills for errors and 22% of these respondents processed more than 400 corrections during the year. High levels of errors significantly impede cash collections, as customers withhold funds until invoicing issues are resolved.

How rigorous is your cash collection process?

Having cash collection policies and monitoring results against those policies is vital to improving working capital management. While 71% of respondents review their cash collection structure, policies and procedures at least once a year, 20% (1 in 5 respondents) have no cash policies. Further, 9% do not measure or report cash collections.

Businesses with no cash collection policy are likely to see higher Days Sales Outstanding (DSO) results than those that do. Interestingly, the survey recorded a 22% increase in the median DSO (55 days) compared to the same period in 2011.

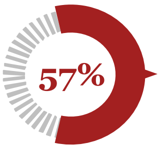
Optimising your cash flow

Establishing and managing to your agreed trading terms is another important aspect of working capital management, as aligning cash receipts with outgoing cash payments will minimise the need for third party funding.

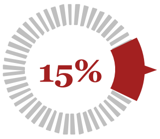
82% of respondents have trading terms of 30 days or less, yet only a quarter of respondents actively contact customers in a bid to collect cash when the bill is 1-15 days old. A further 55% of respondents wait until a bill is 16-45 days old before contacting customers.

Moving your payables strategy beyond routinely delaying payment

Many organisations continue to pay suppliers outside of terms to optimise their working capital and cashflow position. This must always be weighed up against the potential missed opportunities (eg cash discounts foregone) and the impact on long-term supplier relationships.



of respondents spend more than 60 days on the budget process



of respondents are looking beyond 18 months for their forecasting

Budgets: finding the balance between insight and efficiency

The budgeting (and forecasting) processes can significantly increase costs due to the time it takes most organisations to complete this process. Further, the resources allocated to the budgeting processes tend to be more senior finance staff, which typically incurs higher costs.

The survey shows that organisations are taking a significant amount of time to finalise their annual budgets. 57% of respondents spend more than 60 days on the budget process, and about one-third require 5 or more iterations. Ensuring alignment between efforts, experience and outputs starts with reconfirming the purpose of budgeting and defining what the organisation expects from the process.

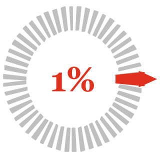
Is your forecasting assessing the downside so you can maximise time to plan?

Forecasting, for most organisations, should be the primary mechanism for managing future performance. The survey revealed 59% of respondents are forecasting 7-12 months in advance but a reasonable number (15%) are looking beyond 18 months for their forecasting.

Where they are not doing so already, organisations should consider extending the timeline to give a longer horizon and break from the traditional fiscal year view. This allows for greater response time when performance gaps are identified and provides an opportunity to better align to customers or suppliers who may have a different fiscal year.

Finance effectiveness

is the median cost of Finance (as percentage of total revenue)



is the global median cost of Finance

of time is spent data gathering versus analysing

What is your finance function really costing you?

The median cost of Finance in Australia (1.5% of revenue) is significantly higher than the global median (1%). When we look at the breakdown of finance function costs, it is clear that the option of outsourcing has not had much traction locally, representing only 3% of total finance function costs.

While Australian companies have tended to outsource back office functions such as accounts payable and receivable, there is a trend overseas to outsource higher value activities such as management reporting.

Are business insight capabilities hamstrung by bad information management practices?

Most finance functions struggle with information management issues, with respondents reporting that 50% of management time is spent on data-gathering versus analysing data.

Businesses wanting to improve their approach to data-gathering versus data analysis should try to:

- stop doing things which don't add value or provide insight
- standardise definitions for finance measures across the organisation
- automate the data collection and integration so that the highly skilled finance staff can focus on adding value rather than on manipulating

Executive summary

People

median remuneration cost as percentage of revenue – typically considered as productivity rate

Maintaining competitive advantage: workforce productivity in the Australian market

Respondents recorded a higher workforce productivity (18%) than both the US and Western Europe. This productivity result is supported by workforce measures that suggest a fluid employment market.

Businesses should be cautious about short-sighted cost reduction activities in a tight employment market – they often result in top-heavy workforce models that lack fresh talent. The move towards an inefficient workforce model makes it more difficult to operate within continuing economic pressure, and this contributes to a continued steady decrease in productivity.

$85k average remuneration across all sectors

Investing in people: measuring the 'workforce asset'

Respondents returned an average remuneration of $84,854 across all sectors; a result that is higher than Western Europe and nearing the US average.

However, the measurement of employee value is not always as intuitive as financial analysis. Businesses would do well to focus on the following:

- Reward – measuring the impact of reward policies by measuring drivers of value and ROI on reward spend
- Strategic workforce planning – integrating workforce planning with internal budgeting and forecasting to measure required skills and capabilities
- Talent management – tracking the pipeline of skills and capabilities by measuring the level of young talent in the workforce model and the impact on productivity.

median ratio of employees to managers, known as span of control

Workforce structure: managing span of control

Respondents returned a span of control median ratio of 6:1, that is, total number of employees as a ratio to the management population. This ratio represents an increase from our last report, suggesting management overhead has been reduced in many organisations to a more optimal level. While the optimal span of control for an organisation will depend on a number of factors, organisations with narrow spans are generally less flexible and slower decision-makers, have a higher number of management on the payroll, have reduced effectiveness of staff communication due to layered management levels, and have reduced autonomy and responsibility for employees, resulting in lower engagement levels.

median termination rate

A fluid employment market: high levels of employee turnover

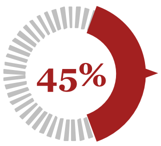
The survey shows there is a high level of employee movement within the Australian employment market, with overall termination rates at 20%. This means that there are opportunities for employees to move and progress their careers. This is supported by the rookie ratio which shows that on average more than one in three employees has been with their current employer for less than two years.

representation of women in management positions

Gender diversity: a critical need for change

The last decade has seen negligible change for women in executive ranks. Survey responses reveal that women represent just 26% of people in management positions in comparison to 35% in Europe. To achieve significant increases in participation, current business leaders must actively demonstrate commitment to diversity policies and inclusive ways of working.

Cloud computing

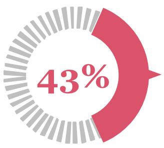


of respondents are either investigating, implementing or have implemented cloud computing solutions

Cloud: managing risk and uncertainty to gain the reward

Successfully adopting the cloud requires a new mindset and new tools to ensure that risks are adequately managed. The top three challenges are aligning functionality to current business processes, uncertain regulatory implications, and vendor due diligence.

Outsourcing

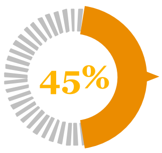


of the population use a shared service centre and/or outsourced provider as part of their finance operating model

Evolving the traditional finance operating model of finance

Companies surveyed demonstrate a low take-up of shared services and outsourcing, with only 43% of the population adopting either of these models, whether onshore or offshore. Outsourcing is increasingly a realistic option for Australian businesses, especially considering outsourcers have established presences in the Australian market and are prepared to deal with smaller-scale finance teams.

Carbon pricing



of respondents do not know what impact the introduction of the carbon price is expected to have on their business

How resilient is your business to potential future volatility in the carbon price?

The Australian Carbon Price Mechanism (CPM) has been operating since 1 July 2012 and although only a small number of organisations will be directly liable, almost all organisations will be affected by cost-pass through, impacting margins and overall earnings. 45% of respondents do not know what impact the introduction of the carbon price is expected to have on their business.

Methodology

PwC is pleased to release its fourth annual Benchmarking Insights Report.

Given the breadth of our client base and understanding of their businesses, we are well positioned to provide these benchmarking insights. Our PwC Analytics team have compiled, collated and analysed respondent data.

More than 120 organisations grouped across nine industry sectors were surveyed. Below is the process we undertook to achieve customised Benchmarking Insights Reports for the survey respondents.

How the report was produced:

Survey

- The benchmarking survey was open to all PwC Assurance clients – audit, risk, controls and solutions.
- The survey comprised numerical data questions as well as non-numerical questions.
- Throughout the process, each client's identity was kept confidential.

Data collection

- Data was collected over an eight-week period from August to October 2012.
- Respondents and the PwC team were able to complete the survey online.

Analysis

- Once the data collection period came to an end, the data was analysed over a six week period.
- Subject matter experts from across PwC within the Assurance, Advisory and Tax practices provided commentary on the spread of our survey results as well as insights from the local market and the global PwC network.

Reporting

- The survey results reflect the data collected from more than 120 organisations grouped across nine industry sectors.
- Survey respondents have been issued a customised Benchmarking Insights Report that compares their business performance to that of the population for particular areas.
- The reports are presented in a non-identifiable way; respondents only see their results in relation to the total population.
- The Benchmarking Insights Report should be seen as a starting point for further discussions, rather than a conclusive assessment in any one particular area.

Disclaimer:

PricewaterhouseCoopers has not verified, validated or audited the data used to prepare this benchmarking report. PricewaterhouseCoopers makes no representations or warranties with respect to the adequacy of the information, and disclaims all liability for loss of any kind suffered by any party as a result of the use of this benchmarking report.

Population

PwC's Benchmarking Insights Report contains data from over 120 organisations. These organisations are grouped within nine industry sectors, seven different capital structures and four different revenue brackets.

The average annual revenue of survey respondents is $559 million. The average number of employees for survey respondents is 648. Data was collected between August and October 2012.

Industries represented	No. of respondents
Automotive, transportation and logistics	10
Financial services	25
Consumer and industrial products	31
Engineering, construction, resources and utilities	26
Entertainment and hospitality	2
Government, healthcare and not-for-profit	10
Info-communication, media and technology	13
Other	11
Professional services	1
Total respondents	129

Capital structures	No. of respondents
Government	2
Listed in Australia	33
Multinational sub - listed parent	40
Multinational sub - unlisted parent	11
Not for profit	11
Other	6
Privately owned Australian	26
Total respondents	129

Revenue brackets represented	No. of respondents
$0m - $25m	24
$25m - $100m	33
$100m - $500m	38
$500m +	34
Total respondents	129

About this report

PwC's Benchmarking Insights Report is customised for individual survey respondents. That is, all charts and tables within the report represent the respondent's results relative to the total population who responded to that particular question. Commentary remains static throughout and is collated based on the overall response of the population.

The report includes over 50 metrics across the areas of business efficiency, finance effectiveness, people, cloud computing, outsourcing and carbon pricing.

Attached below are example pages a respondent can expect from a customised report, comparing their results to the population.

Business efficiency

Reaping the benefits of a smart, efficient close-to-report cycle

Days to close and manual journals

To support good decision-making, managers need accurate and current information. Additionally, in an increasingly complex regulatory environment, stakeholders and regulators demand more transparent and reliable information in shorter timeframes.

An extended close-to-report cycle time not only results in the late delivery of information but also indicates that a disproportionate amount of effort is being spent on production, rather than on analysis of results. Organisations focused on streamlining the process strive to shorten the reporting timeframe, which in turn reduces finance costs and supports better business decision-making.

This year's survey shows the highest quartile successfully completing the close-to-report cycle in 7 business days, while the median group requires 10 business days. In our experience, however, leading trend organisations are able to produce consolidated reporting in 5 business days[1]. This suggests that while some organisations are working to improve the close-to-report process, a large portion of the respondents still have the opportunity to derive significant improvement in this aspect of their finance function.

Implementing improvements to the process often requires a holistic approach in which all business dimensions are considered. Some key focus areas of organisations who have sought to enhance the close-to-report cycle are:

- streamlining and optimising the entire cycle by appropriately sequencing work steps while eliminating bottlenecks, duplication of effort and non-value-adding activities
- carefully considering the value added by manual journals which are processed during month end; this takes significant time and adds complexity to reconciliations
- identifying and removing the cause of errors, mitigating the risk of having to complete ongoing adjustments
- leveraging technology to improve process efficiency
- aligning with stakeholder needs to provide effective decision support and regulatory compliance
- improving the alignment between the data required for internal reporting and that for external reporting.

What is the number of business days for month-end close and reporting?

What is the total number of manual journals processed in the most recent financial year?

[1] PwC's Global Best Practices 2012

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Cloud computing

How do you manage risk and uncertainty to gain the reward? (cont)

Cloud challenges and risks

When respondents were asked about the perceived risks of implementation versus common risks in past adoptions, two risks deviate from each other: portability risk and business continuity risk. Respondents expressed slightly higher perceived risk for business continuity; however, past cloud computing adoptions have shown that the likelihood of such risk eventuating is low. This is in contrast to portability risk, as respondents expressed a slightly lower perceived risk when compared to the actual portability risk occurring during past adoptions.

While the cloud offers the prospect of limitless scalability, an organisation needs to plan ahead and understand the complexities when looking to migrate to or between cloud providers due to the use of proprietary or incompatible technology or processes.

Security continues to receive most attention from organisations, with over 65% of respondents indicating this as the top risk. Other concerns are also widespread (and are not just perceived), including compliance and data sovereignty. Data and systems integration, IT governance, and a host of other issues weigh heavily on the minds of respondents considering a shift to cloud-based computing solutions.

"Compliance and data sovereignty issues are real", says Jody Little, Vice President of Cloud International Offering at Fujitsu America[3],"they're not just perceived. A lot of cloud providers are not able to guarantee where a particular client's data is going to reside and to prove that for governmental audit purposes".

This has become more relevant with the introduction of the US's Patriot Act and similar legislation in other countries allowing authorities to inspect cloud data in those countries.

Key considerations

- Do you have an assurance framework to ensure that risks are effectively managed for your cloud computing services?
- Have you considered the potential impact on business continuity and disaster recovery?

Risks in adopting cloud solutions

What would you consider the main risks to be in implementing a cloud based solution?

What are/were the main risks in adopting your cloud based solution?

Note: Respondents may have selected more than one option

[3] "The future of IT outsourcing and cloud computing," a PwC study, 2012

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