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THE 2016 READERS' CHOICE AWARDS

Vision Quest: The Strategic CFO

New Cures For Health Costs

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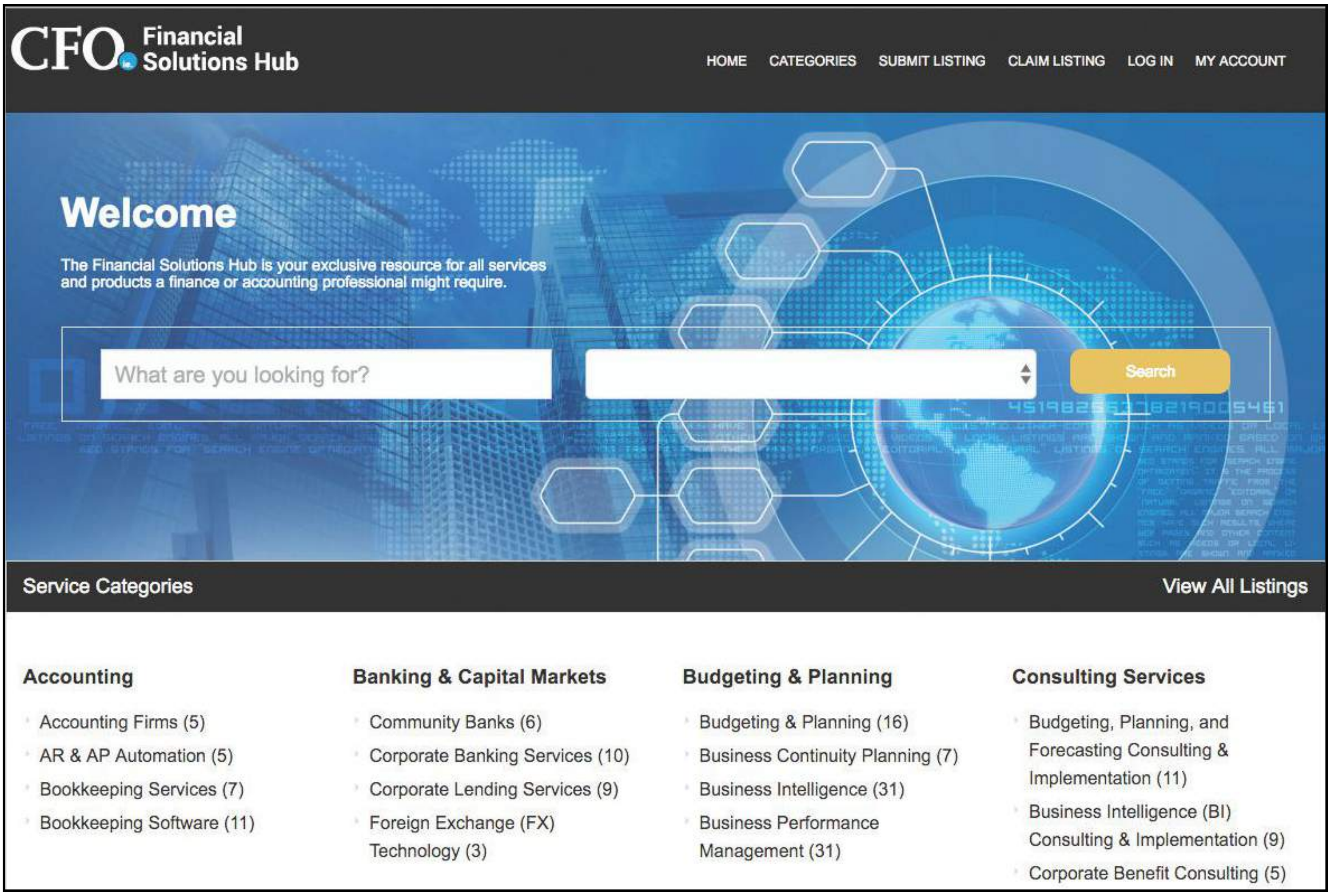

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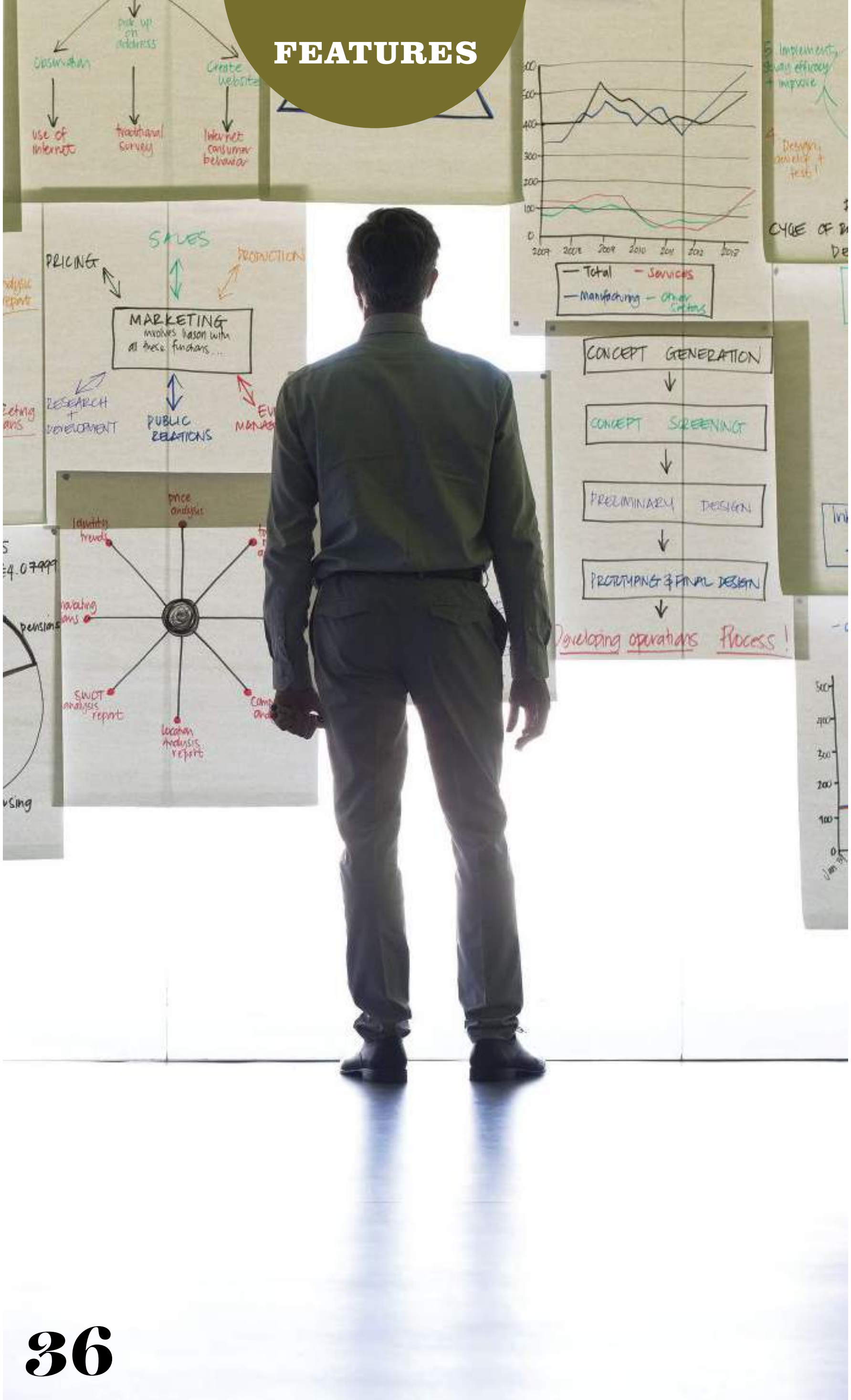
June 2016
Volume 32, No. 5

FEATURES



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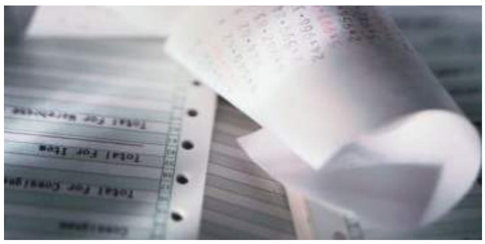
Up Front



By the Numbers

Clockwise from top left: Thinkstock (7)

FROM THE
EDITOR

Wise Choices

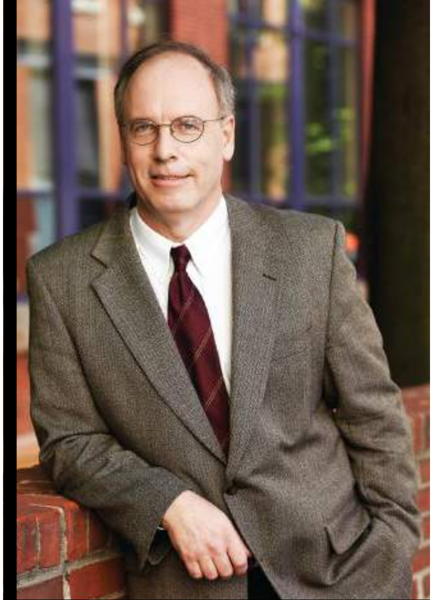
››Our cover story this month represents a new undertaking for *CFO*. In the past, we've offered buyer's guides to accounting software, ERP systems, and 401(k) recordkeepers. Now, we've turned the tables. For our first annual Readers' Choice Awards, we asked readers to vote for their favorite software and service providers, in the categories above and others—20 in all. To find out who won and who the runners-up are, see "And the Winners Are..." on page 29.

Our second feature, "Vision Quest" (page 36), addresses rising expectations for finance chiefs to add strategic value to their organizations. The demand for "strategic CFOs" is anything but new; *CFO* magazine, for one, has devoted stories and surveys to the topic at least as far back as 1994. But the growing influence of finance chiefs in the organization since then, coupled with business transformation initiatives and ever more powerful information technology (to name three trends), has put CFOs in a stronger position to become strategic partners to the CEO. We talk to two finance chiefs who are deeply involved in their companies' transformation efforts, consider the strategic usefulness of corporate performance management software, and report on a business school's program for training strategic CFOs.

The growth of employer health care costs is slowing, and that's good news. But the bad news is that for most companies, that growth is still on a pace to incur the 40% excise tax on high-cost health plans (the "Cadillac tax") set to take effect in 2020. Companies have been aggressively managing costs for years; is there anything else they can do? The answer is yes, from promoting greater employee engagement in their health care to distributing innovative apps for managing blood pressure, diabetes, nutrition, and more, reports David McCann in "New Cures for Health Costs" (page 42).

On a lighter note—no pun intended—the subject of this month's quiz is the recorded music industry. To test your knowledge of how digital technology has transformed the industry, turn to "Shake It Off" on page 48. (Bonus question: Which artist co-wrote the song that bears the same title as the quiz?)

Edward Teach
Editor-in-Chief



Kory Addis

EDITOR'S PICKS

JOINT VENTURES

Surveying more than 1,000 executives and conducting 45 interviews with joint venture managers, two McKinsey experts have come up with three principles that should improve the odds of making a successful JV. See "Negotiating a Better Joint Venture" at www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/negotiating-a-better-joint-venture.

DIGITAL TRANSFORMATION

For several years, brick and mortar retailers have been striving to integrate online and offline shopping. But their efforts have fallen far short of delivering "a true omnichannel experience," contends the COO of a wearable technology firm. Find out why in "Omnichannel Is So 2010—but Retail Still Hasn't Figured It Out," at http://knowledge.wharton.upenn.edu/article/omni-channel-2010-retailers-still-struggling-adapt.

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In **"Unlocking Hidden Value Through Ubernomics"** (April 25), contributor Barbara Gray wrote admiringly about the immense valuations that have been assigned to Uber and Airbnb. "Such collaborative commerce represents a powerful new business model that enables companies to defy traditional economic principles of scarcity," Gray opined.

Some readers were unconvinced, to put it mildly. Wrote one, "This train has already left the station, but the long term remains to be seen—unless your clairvoyant powers let you see what [will work] and what [won't] in the long term."

Another reader commented, less sarcastically but also less equivocally: "Ubernomics don't work.... The only reason Uber is still operational is because it's **not governed by the same set of laws and regulations as the rest** of the [public transportation] industry. Same thing with Airbnb. Eventually more and more people will realize that ubernomics is unfair and in many cases law-violating competition."

Another article drew some more positive responses. In **"The Robo-Accountants Are Coming"** (May 9), Brian Peccarelli, president of Thomson Reuters Tax & Accounting, made a reasoned argument that accountants have no reason to fear that their jobs will be displaced by automation. In fact, automation will result in vast new job creation, Peccarelli wrote.

One satisfied reader commented: "Tax professionals must prepare for the changes ahead. **What you predict is right on target, and those who listen will be way ahead of their competitors."** Offered another, "This is encouraging to hear, because these technologies will revolutionize the way work is done across many domains."

THE BUZZ ON CFO.COM

A third pointed out, "Yes, the robots are coming, but they're being built by CPAs."

CFO.com's latest "Square-Off" forum (**"Is an Accounting Background Important for Today's CFOs?"**, May 18) pitched two CFOs, a CFO services provider, and two recruiters into a debate on the optimal qualifications for a finance chief. One reader, who identified himself as a management accountant, wrote:

"Do you need a CPA to be CFO? No. Do you have to be a trained accountant? No, though it's quite helpful to have a deep understanding. Do you need to have leadership, strategic vision, mentorship, relationship-building, and project management skills to be a CFO? Unequivocally yes."

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Topline

STATS OF THE MONTH

ATTACK PATTERNS

16.3%
Percentage of data breaches caused by "insider and privilege misuse" (mostly by end users)

0.4%
Percentage of system attacks motivated by espionage and committed by state-affiliated actors

795
Incidents of confirmed data loss in financial services in 2015, the most of any industry

Source: 2016 Verizon Data Breach Investigations Report

FINANCIAL REPORTING

SEC Leads Crackdown On Non-GAAP Measures

"Cherry picking" and boilerplate reporting are in the SEC's crosshairs.

Reacting to what it sees as the growing prevalence of non-GAAP measures and suspecting that they're increasingly misleading, the Securities and Exchange Commission is cracking down on the practice.

Following its issuance of a 2010 guidance restoring some non-GAAP measures that the SEC had effectively barred, the SEC "relaxed" its vigilance of the use of measurements that fall outside the realm of generally accepted reporting practices, Mark Kronforst, the chief accountant of the commission's corporate finance division, recalled in May.

"For lack of a better way to say it, we are going to crack down," he said at Baruch College's annual financial reporting conference. "The pendulum has swung."

In a related development, Hans Hoogervorst, chairman of the International Accounting Standards Board, said that the use of non-GAAP measures may drive IASB to revise its re-

porting requirements involving income statements. "There is growing evidence showing increasing use of non-GAAP measures, and of these measures becoming increasingly misleading," he said in a speech at the annual conference of the European Accounting Association. Expressing concern about companies' increasing use of non-GAAP measures to make their financials look better, Kronforst said that the SEC is "definitely" on the lookout for companies that are prone to "changing the calculation of a measure depending on what happened for any particular year."

One particular practice that would be in the SEC's crosshairs is the so-called cherry picking of non-GAAP results to portray a company in the best possible light. "That would be moving the goalposts over time to manage the non-GAAP measure," Kronforst said.

The commission frowns on the practice of senior executives "changing the calculation of a measure depending on what happened for any particular year [in a way that's] advantageous to management," he added, "particularly when there's no disclosure of it."

To be sure, the SEC hasn't seen many such instances, Kronforst said, noting that its rules do not explicitly require a company to report a change in how it calculates a non-GAAP measure. Still, if the commission finds that a company has done that, "we will issue a comment that we know that a company is doing that and not talking about it."

Another SEC official who spoke at the conference, Wesley Bricker, the deputy chief accountant, said in particular that the commission was concerned about "the use of individually tailored accounting principles to calculate non-GAAP earnings."

To illustrate the practice, Bricker provided the example of a subscription-based firm that bills for a full subscription at its outset. Since the company will deliver its services over time, however, it earns and recognizes GAAP revenue over that same period.

At the same time, "the company calculates non-GAAP revenue as though it had a different business. That is, it calculates what revenue it would have had, had it not sold a subscription, but rather had sold a product," he said.

The upshot? The firm's GAAP results "are based on revenues recognized as the service is provided and the non-GAAP results are based on revenues that are merely billed to the customer," according to Bricker.

Such a use of a non-GAAP measure isn't likely to help investors dig into a company's operating results. "Rather, it is a replacement of an important accounting principle with an alternate accounting model that does not match the company's subscriptions business or earnings process, which is over time," the SEC official said.

> **"Revenue adjustments do more than just adjust from GAAP: they change the very starting point from which other performance analyses flow."**
> **›› Wesley Bricker, deputy chief accountant, SEC**

Bricker leveled a broader criticism of company alterations of GAAP revenue. "Revenue adjustments do more than just adjust from GAAP: they change the very starting point from which other performance analyses flow," he contended.

The SEC is also zeroing in on how companies are making required disclosures of why their use of particular non-GAAP measures are useful. "Probably the most common comment that our division will issue is about the usefulness of the measurement," said Kronforst. "Usefulness disclosures [are] something we are very concerned about."

Since the issuance of the usefulness requirement under SEC non-GAAP rules in 2003, corporate disclosures "have become somewhat boilerplate," he said. "And the commission, when they adopted the rules, [made it] very clear that boilerplate is not acceptable."

It's also unacceptable for corporations justifying the use of their non-GAAP measures "to say that analysts are begging for this information and therefore [they're] providing it. That may be true, but that's not sufficient disclosure," Kronforst said.

DAVID M. KATZ

BUDGETING

On the Agenda: Cost Cuts

A large number of U.S. companies that are experiencing growth are also making moves to cut costs that are more typical of businesses in distress, according to a new Deloitte survey.

The poll of 210 senior executives at Fortune 1000 companies found that 88% percent of respondents expect to pursue cost reductions over the next 24 months, regardless of company performance, a more than 10% percent increase from the firm's last report.

Respondents cited the global economy as their top concern, from lower international consumer demand to foreign exchange volatility.

"The 'save to grow' strategy that emerged in our previous survey (using cost reduction to fund growth initiatives) remains prominent," Deloitte said.

But the consulting firm also said that strategy is being "accompanied by actions not seen since the 2008 global recession, including focusing on balance sheet issues such as working capital, treasury, credit, and cash flow. These cost actions are more typically seen in 'distressed' companies and are not traditionally associated with a 'save to grow' mentality."

In another sign of a defensive posture, 59% of companies are now trying to reduce costs by 10% percent or more. But almost two-thirds of company cost reduction initiatives are not meeting targets, according to Deloitte, and the percentage of cost programs that failed to meet their targets over the past two years increased from 48% in the 2013 survey to 58% this year.

"Companies are using tactical cost reduction strategies, such as streamlining business processes and reducing external spend, rather than more strategic cost reduction approaches, such as increasing centralization, outsourcing, and offshoring," the report said.

To help address failed cost-reduction programs, 32% of the surveyed companies created a dedicated executive position to oversee cost management over the last 24 months, up from 16% in Deloitte's previous survey.

MATTHEW HELLER

Thinkstock

CYBERSECURITY

Wary of Ransomware

Miscellaneous errors—including improper disposal of company information—accounted for the largest number of data security breaches last year, according to Verizon, while ransomware became a more common form of cyber attack.

The telecom company said in its 2016 Data Breach Investigations Report that miscellaneous errors were at fault for 17.7% of breaches, followed by insider and privilege misuse (16.3%) and physical theft and loss (15.1%).

Errors included misconfiguration of IT systems and lost and stolen assets such as laptops and smartphones. More than a quarter of such incidents involved people mistakenly sending sensitive information to the wrong person.

"Despite advances in information security research and cyber detection solutions and tools, we continue to see many of the same errors we've known about for more than a decade now," Bryan Sartin, executive director of global security services for Verizon Enterprise Solutions, said.

Crimeware accounted for 12.4% of intrusions, with phishing picking up dramatically over 2014. (Crimeware are programs meant to automate the theft of information, such as enabling someone to gain access to a person's banking accounts online.) Thirty percent of phishing messages were opened—up from 23% last year—and in 13% of those cases the recipient clicked to open the malicious attachment or link.

Phishing is "an amazingly effective technique and offers attackers a number of advantages such as a very quick time to compromise and the ability to target specific individuals and organizations," Verizon said.

Ransomware attacks, a form of crimeware that restricts access to an infected computer system and demands the user pay money, increased by 16%, accounting for 39% of crimeware incidents in 2015.

In specific industries, crimeware was one of the three most prevalent forms of attack on financial services companies, along with web app attacks and denial of service, and on utilities, along with cyber-espionage and denial of service. **M.H.**

CREDIT

Energy Woes Spreading to Oil Patch Borrowers

The downturn in the U.S. energy industry is spilling over to businesses and households in energy-dependent regions, affecting the credit quality of auto and other loans, according to the Federal Reserve.

The Fed's April survey of senior loan officers found a majority of banks have taken steps to mitigate energy-related loan losses, such as tightening lending policies on new loans made to energy firms, restructuring outstanding loans, and requiring additional collateral.

A significant percentage of banks also reported hedging the risks arising from declines in energy prices through derivatives contracts.

The survey also showed there has been a spillover from the energy sector onto the credit quality of loans made to borrowers in energy-dependent regions.

In particular, the Fed said, "a significant net fraction of banks reported that credit quality deteriorated for both auto loans and non-energy-sector C&I loans somewhat over the past year. Furthermore, moderate fractions of banks indicated that [commercial real estate] loans, consumer credit card loans, and consumer loans other than credit card and auto loans made to businesses and households in these regions also deteriorated somewhat over the past year."

Twenty-eight percent of banks have seen deterioration in C&I loan quality to non-energy borrowers in energy-dependent regions, and 25% have seen deterioration in auto loan quality. Two-thirds of respondents expect the quality of loans to energy firms to deteriorate over the remainder of 2016. **M.H.**

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CAPITAL MARKETS

Send in the Crowds

Title III of the Jumpstart Our Business Startups Act (the crowdfunding exemption) finally went into effect in the United States on May 16. But don't expect a rush of small businesses seeking to tap nonaccredited investors for seed funding and other kinds of financing. Indeed, there's a danger crowdfunding could be "smothered at birth by red tape."

With securities-based crowdfunding, the kind permitted as of May 16, a company can raise up to $1 million every 12 months. "Prior to this, only accredited investors could hold equity in small companies and startups, but today, everyone can," explains Denise Valentine, a senior research analyst at Aite Group.

Crowdfunding has been a very hot topic for the four years since the JOBS Act passed into law. However, the excitement has worn off lately, so much so that the consensus seems to be that crowdfunding will start "most likely with a whimper more than a bang," says James P. Dowd, managing director of North Capital. "We are not expecting an opening of the floodgates."

One reason for that is escalating tension over the rules. "On the one side, you have crowdfunding service providers who would like to see a frictionless market: few restrictions, no requirement to bring in outside accountants or law firms, high fundraising limits, all issuer types," Dowd says. "On the other side are those who are more concerned about investor protection (including the regulators): they are more concerned about due diligence, screening for fraud and bad actors, [and] ensuring that unsophisticated investors do not get over-extended."

For the record, Dowd doesn't think the regulations are too onerous, relative to other regulation of financial firms.

"Of course we would always welcome less regulation, but in the scheme of things we don't believe that there is anything crazy in the crowdfunding rules," Dowd says.

"Moreover, our experience is that the regulators seem attuned to the concern that Title III could be smothered at birth by red tape," which is what happened to old Reg A and Small Company Offering Registration financings. "In short, I believe the regulators are appropriately focused on investor protection—it's an important concern and some of the portals would do well to pay more attention to it."

Says Aite Group's Valentine: "Everybody has gripes," but "the fact is people need to know what they are investing in, whether its $50,000 or $250,000; it's money [the investor] worked very hard for, and there have to be requirements about disclosure: what the company is, what it does, and what it intends to do with [investors'] money."

It will be a slow process of education and [building] awareness, she predicts.

"The [peer-to-peer] market took 10 years to evolve," Valentine points out. "The [crowdfunding] portals are well positioned to provide support [to companies.] The infrastructure pieces are there. It's just getting everyone on board."

VINCENT RYAN

COMPLIANCE

Compliance Pros Concerned

Could heightened scrutiny result in a mass exodus of corporate compliance officers (CCOs) from their positions? Two actions last fall have them squirming in their seats.

First, in what's now commonly referred to as the Yates Memo, U.S. deputy attorney general Sally Yates stressed that the Justice Department will step up efforts to prosecute individuals who perpetrate corporate misconduct. Second, the DoJ hired Hui Chen, a former federal prosecutor and corporate in-house counsel, as its first full-time expert compliance counsel.

Judging from a recent survey by law firm DLA Piper, CCOs and in-house corporate counsel are unnerved by the specter of heightened scrutiny. Eighty percent of 78 such people surveyed were at least somewhat concerned about the change in tone and tactics from Washington, while 91% predicted greater scrutiny following Chen's appointment. Finally, 65% of respondents said the recent developments would affect their decisions to remain in or accept positions as CCOs.

"The tension between heightened personal liability and stunted resources could have multiple negative implications for the compliance industry," DLA Piper said.

DAVID McCANN

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The Most Serious Emerging-Market Risk

Currency volatility is an annoyance, but it's when governments institute capital controls that multinationals really have a problem. By Vincent Ryan

In Azerbaijan, part of the former Soviet Republic, the plunge in oil and gas prices has the government raiding its sovereign wealth fund to make up a budget deficit. The nation's currency, the manat, is worth about 61 cents (U.S.), down from $1.27 just one year ago. To stanch the bleeding, Azerbaijan has imposed a 20% tax on any transaction that takes money out of the country.

If there is anything that's worse for multinationals than having to write down foreign assets or take a 3% hit to earnings because of unfavorable exchange rates, it's capital controls—government measures to restrict the movement of money.

The depression in commodity prices has heightened the risk of capital controls for multinationals doing business in emerging markets. Such restrictions affect international suppliers and lenders in many ways. Delays or even defaults in customer payments can result. A U.S. parent company can be prevented from extracting a dividend from its emerging market investment or pay a hefty toll to do so. A division of a U.S. company can find it near impossible to convert a local currency to U.S. dollars.

Capital controls come in many forms, including taxing foreign exchange transactions, freezing outflows of hard currency, and restricting certain kinds of capital markets speculation. For example, during the eurozone crisis, Greece closed its banks and halted transfers abroad as local depositors lined up to withdraw their money. Ukraine curbed purchases of foreign currencies in 2014 as its conflict with Russia flared up. Iceland imposed capital controls during the financial crisis and only recently hinted at lifting them. Earlier in the decade, Brazil imposed a 6% tax on foreign currency when it was converted into equities or short-term debt.

The current situation arises from the sustained downturn in oil and other commodity prices globally. As David Anderson, director of global business development at Zurich Credit & Political Risk, explained to *CFO,* "[Many] emerging markets depend on commodity prices being high, because they tend to be commodity exporters. When commodity prices dip and stay low for a prolonged period that puts pressure on their [foreign exchange] reserves."

FX reserves are important for many reasons: they allow a government to intervene in FX markets during currency fluctuations, maintain the value of its current accounts, and absorb external economic shocks.

In the situation that commodity exporting countries find themselves in now, they have three choices, says Anderson:

1. Devalue the currency. A lot of countries have already done this. Devaluation tends to reduce imports and increase exports, all things being equal. But in a slow-growing global economy, devaluation may also be insufficient to incite economic growth.

2. Raise interest rates. Doing so will make a country's assets more attractive when compared with countries that have lower interest rates, all things being equal. But increasing interest rates has a direct impact on a local economy—it tends to slow it down. That makes raising interest rates anathema to policymakers, especially amid current global market turmoil.

3. Capital controls. This is the tactic many governments have decided is the least painful. Capital controls prevent people and companies from moving money offshore or make it more expensive to do so.

Saudi Arabia and Nigeria, besides Azerbaijan, are two notable countries that have recently imposed capital controls, Anderson says. Saudi Arabia has disallowed traders from shorting its currency. Nigeria has established a series of measures to stop the plunge

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in value of its currency, the naira. The African country halted the importing of certain goods, like food and furniture. In addition, Nigeria banned the use of credit and debit cards by its citizens traveling or otherwise purchasing goods abroad. Anderson says Zurich is already starting to see potential claims in Nigeria related to problems with currency convertibility.

In general, multinational suppliers to buyers in emerging markets may see defaults by their customers or delays in payments. (These can also include receivables due from governments and state-owned enterprises.) Banks that have lent money to debtors in emerging markets may see increased probability of nonperforming loans or increased need for rescheduling a loan's payments, Anderson says.

The economic stress on commodity export-dependent companies can also develop into political stress, says Anderson. With some of these countries suffering credit rating downgrades, they may have reduced capacity to spend on social programs that their citizens care deeply about, says Anderson. "It is not far-fetched to think there will be political ramifications if commodities prices stay at low levels in emerging markets, increasing risk of civil strife, political violence, and possible regime changes," he says.

The risk of capital controls and resulting political risks in part depend on how long commodity prices stay where they are, says Anderson. Despite a rebound in the price of oil lately to the mid $40 range, few experts see crude prices soaring soon. The International Energy Agency predicts oil will recover to $80 by 2020, but a low-price scenario projects the price per barrel could hover in the $50 to $60 per barrel range well into the 2020s.

"We've been in prolonged commodity price dips before and there were major political events that came out of them," Anderson warns. CFO

Budgeting For Risk Management Unknowns

Dealing with the unknown is a key part of budgeting and planning for risk management departments.

Risk managers are "comfortable dealing with the unknown," says Gordon Adams. That's a good thing, he adds, because they're dealing with it all the time.

Indeed, the unknown is a permanent aspect of the budgeting and planning process of corporate risk management and insurance departments, according to Adams, who a few months ago took on the job of managing property-casualty risks for the clients of Servco Pacific Insurance, a brokerage.

The risk management executive, who previously was chief risk officer for a global tuna fishing company, has more than 40 years of experience in insurance. He says the uncertainty is greatest in one of two cost "silos" built into the budgets of risk management departments.

The first silo includes payroll and other relatively fixed risk management expenses. "Those are pretty predictable, and you know where you are" in terms of budgeting for them, Adams says. These expenses include ranges of possible salary increases, turnover, and chargebacks of risk costs to different departments.

"You get that in computer form and you can just start working on [budgeting] it like any other department," he adds.

Less fixed—but still within familiar parameters—are insurance costs incurred under existing, renewable coverage. Seasoned risk managers aware of whether property and casualty insurance markets are softening (getting cheaper) or hardening (getting costlier) can accordingly make adjustments to their current premiums and "get pretty close on the actual [budgeted] insurance costs" that the company will incur, he adds.

The unknowns crop up in the insurance silo when risk managers ponder whether their companies will need any new coverage, and, if they do, what's it going to cost. If the company is launching new projects or product lines, or is about to embark on an acquisition, its insurance buyers must consider what potential losses it faces on those activities, according to Adams.

Further, if the extent of a risk is mostly unknown, so will be the amounts of coverage available. Insurance on the risks involved in the use of new technologies like driverless cars, for instance, can be extremely hard to come by, according to Adams. "Who's going to insure them?" he asks. "You talk to the auto insurance companies and they say they have no statistics, no records. What happens if your software gets breached or you get hacked?"

In such cases, because insurers have no loss experience on which to base a reasonable price and develop profit expectations, they refuse to cover the risk, he adds.

If there's little or no insurance to be had on such exposures, corporate buyers may have to budget for large deductibles on their policies or set up self-insurance programs. ▸ DAVID M. KATZ

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A Checklist for Job Change

Consider these five items before moving to a new job—or if you decide to stay at your current one. **By Christine Osvald-Mruz and Christopher Loeber**

Whether because of a change in control, greener pastures beckoning, or just a desire to do something different, job change may become imminent for a CFO. What are some of the key considerations around making a decision? ¶ While compensation normally is the first focus in considering a new position, there are other important areas you should not overlook. If you are moving on, here are five points to check about the terms of your new employment. These points also are worth checking if you are staying put.

1. Noncompete agreements. Aside from salary, bonus, and incentive compensation, the inclusion of a noncompete agreement in your existing employment terms may be the single most important point to consider, as this could limit your choices for what is "next."

Some would argue that, given the nature of the role, a finance chief should not even have a noncompete. But with the CFO being so familiar with the entire business, that argument may not prevail. It is important to understand the terms of a noncompete, and to be cautious about how sweeping its application could be.

For example, a noncompete that restricts a CFO from providing services to any entity in the company's industry for a period of one year after termination could prevent a desirable move. Although CFO skills are transferable across industries, you may desire to stick with an industry you know.

One compromise could be to agree not to work for specific named competitors for a specified period post-termination (to assuage the company's concerns about loyalty and its secrets). Another compromise could be an

agreement that the noncompete would not apply if the company terminates you without cause or you leave for "good reason."

Since with a change in control there is often CFO turnover, another thing you might ask is for the noncompete to terminate if there is a change in control. Finally, another compromise could be to reduce the length of a proposed noncompete.

2. Severance. Although each new relationship starts out with optimism, it's wise to consider what could happen if your employer terminates you without cause or you leave more or less involuntarily (for "good reason").

If your employment is at will and there is no severance policy or negotiated severance, then you are at risk if the company decides to let you go. Often, executives negotiate for the length of a severance period to match the length of a noncompete, so that if they are prevented from working by the terms of a non-compete, they are compensated during that period.

In addition to continued base salary for a certain period (or in a lump sum), executive-favorable severance terms may include a bonus equivalent (or pro-rated bonus), health coverage for the severance period, and accelerated vesting of stock options. Note that it's typical for severance to be conditioned on a release of claims. Seek to have the release attached to your agreement as an exhibit so that you can negotiate the terms in advance.

3. Deferred compensation. If you have a right to compensation that will (or may) be paid later than the year in which it is earned, you need to make sure that it does not violate the deferred compensation rules of Section 409A of the Internal Revenue Code.

These rules can impact everything from bonuses to severance and incentive compensation. The penalty for violating Section 409A falls on the executive (not the company) and includes a 20% penalty tax, interest, and early inclusion of amounts in income.

At its most basic level, Section 409A requires that the parties specify a form (lump sum or installments) and time of payment. Only certain payment "times"/events are permitted for compensation that is deferred. Certain exceptions apply, including the frequently used "short-term deferral" exception for compensation that is paid no later than two and a half months after the end of the year in which it vests (normally March 15).

To the extent that it's possible to rely on an exception to Section 409A, this may be preferable in terms of allowing more flexibility and less

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risk. For example, acceleration of payments is often possible if the arrangement is exempt from Section 409A but usually is not possible if it's deferred compensation subject to Section 409A.


Christine Osvald-Mruz

4. Indemnification. The role of CFO brings with it risks of liability relating to service, as well as litigation risks. These risks were underscored in September 2015, when the Department of Justice outlined new policies prioritizing the prosecution of individual employees who are involved in alleged corporate crimes.


Christopher Loeber

As a result, it is more important than ever for finance chiefs to have protection for acts taken in the course of duty. Officers (and directors) often enter into indemnity agreements with their employers, particularly in the public-company context. These agreements normally require the company to indemnify the individual for events related to the scope of services (including direct expenses and related liabilities, such as penalties and fines, net of amounts covered by insurance) and to advance expenses.

Regardless of whether such an agreement is possible in your case, ask to see the indemnification provisions for officers in the company's organizational documents (charter and bylaws if it is a corporation).

5. Directors' and officers' insurance. Indemnification and insurance go hand in hand. As with all types of insurance, the devil is in the details when it comes to a D&O policy.

Here are five high-level tips. One, it is important to know how much coverage you have and how the company determined that the coverage amount was appropriate. Two, you should understand who else is covered by your policy, because D&O policy limits are shared among many individuals and claims against multiple insureds can quickly erode available coverage.

Three, you should determine whether your policy "advances" or "reimburses" defense costs, the former being far preferable. Four, particularly in view of the DoJ's recent targeting of individuals, you should ascertain whether your policy covers regulatory inquiries, presuit investigations, and the cost of responding to subpoenas.

And five, because some policies impute the conduct of one insured to all insureds, you should be aware of whether and how another individual's actions can impact your entitlement to coverage. CFO

Christine Osvald-Mruz is a partner in the employee benefits and executive compensation group, and Christopher Loeber a partner in the insurance recovery group, at Lowenstein Sandler LLP.

Reimbursing Tuition Pays Off

Study reveals that tuition assistance programs create several types of savings.

Chances are that your company offers a tuition reimbursement program, as do your competitors. The purpose is likely to enhance employee recruitment and retention. As a CFO, you may not spend much energy thinking about such HR matters.

But according to research results released in May, there is a measurable financial benefit from tuition assistance. For one company, Cigna, that benefit was at least 129% between 2012 and 2014 — that is, for each dollar invested, the insurer got that dollar back and saved a further $1.29 on talent management costs.

It's common for employers to offer such a program, but few evaluate the programs' economic ROI, according to Jamie Merisotis, CEO of Lumina. The company engaged Accenture Consulting to conduct a series of studies aimed at quantifying the ROI of major employers' tuition assistance programs.

"If many companies have results like Cigna has achieved, and we think they do, that means tuition assistance, which has traditionally been treated as a benefit, is actually going to look much more like an investment than a cost center for these companies," says Merisotis.

The analysis focused just on the impact on talent management costs, since for many reasons tying it to revenue is difficult. The 129% figure includes savings related to employee promotions, retentions, and transfers.

Specifically, the research found that participants were 10% more likely than other employees to be promoted. Further, the research found that participants were 7.5% more likely to be transferred internally. It's somewhat more difficult to perceive how that translates to savings. But Karen Kocher, Cigna's chief learning officer, notes that "transfers" include employees that retained their existing roles and also acquired new responsibilities as a result of their participation.

DAVID McCANN

Courtesy the authors

The Raw Nerve Of Materiality

FASB's plan to use only the U.S. Supreme Court's definition of materiality draws fire. By David M. Katz

Last year, when the Financial Accounting Standards Board first proposed jettisoning existing accounting lingo in favor of a legal definition of the word "material," the board members may have thought they were making a confusing issue clear, according to former FASB chairman Robert Herz. ¶ Instead, the board's issuance of a proposed accounting standards update in September 2015 that would shed previous descriptions of materiality in favor of the U.S. Supreme Court definition "touched a raw nerve," he observed in an interview with *CFO* earlier this year.

While FASB has issued various concept statements and descriptions "of what could be" material financial information about a company—information that must be disclosed in the financial statements—"there was no specific standard regarding materiality," said Herz, who was the board's chairman in 2009, when FASB, under pressure from the Securities and Exchange Commission, put the issue on its agenda.

But when the board unequivocally confirmed that it would follow only the Supreme Court standard, it upset some investors. They saw in it the threat of "a higher bar" on what information could be dubbed material, thus giving companies greater leeway in deciding what not to disclose to investors, according to Herz. Further, investors feared that "issuers [would] start to hide behind" the standard in a way that permeates other aspects of financial reporting, he noted.

Would Herz have upheld a legal standard for materiality if he were still chairing FASB? "My opinion is, with the benefit of hindsight, I probably wouldn't have touched this raw nerve," Herz said. "I think that they think they were just clarifying something, but I don't know if it was such a burning need."

In its proposal, FASB stated that materiality "is a legal concept," and that "it observes but does not promulgate definitions of materiality." The U.S. Supreme Court's definition of the term "generally states that information is material if there is a substantial likelihood that the omitted or misstated item would have been viewed by a reasonable resource provider as having significantly altered the total mix of information."

Adopting that definition would free FASB of any responsibility to draw numeric guidelines between what's material for a company to report and what's not. Because the Board operates exclusively under the Supreme Court's definition, "[it] cannot specify or advise specifying a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation," FASB stated.

Although FASB leaders do regard the proposal as a clarification rather than a major policy change, the raw nerve Herz alluded to seems to have grown increasingly inflamed. In April 2016, at a roundtable on materiality at the NYU Stern School of Business, the proposal drew fire from the accounting, legal, and investment professions, as well as a more moderate critique from the corporate side.

Stanley Siegel, an emeritus professor at NYU Law School, blasted the notion of introducing legal definitions into the U.S. accounting system. "Materiality has meanings in several different contexts ... it doesn't follow that what's material for a criminal case is material for accounting," he contended. "We're in a worrisome area when we attempt to apply one standard in another setting."

In fact, there is not one legal standard of materiality in the United States, but many. "If you wanted a legal standard, you'd have to talk about a standard under state law, under federal law, and under multiple different laws," Siegel noted.

For instance, materiality in a lawsuit that involves faulty corporate disclosure is defined under state law, which varies among the 50 states. But materiality concerning the violation of

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the federal securities laws is governed under a federal statute that's interpreted by the federal courts. "The federal courts can interpret the statute one way, and the state courts another," according to the law professor, who noted that the systems often divide that way. "The state courts are not bound by the U.S. Supreme Court."

To be sure, some senior finance executives have supported FASB's broad efforts to simplify disclosure standards. But at least one expressed qualms about the legal definition of materiality. "Materiality as a legal concept is a little concerning," said Jason Hays, Verizon's corporate accounting policy manager.

"From jurisdiction to jurisdiction there may be an issue about interpreting [the definition], and I think it leaves a lot for interpretation," he added.

A Notion of Materiality

Siegel had another objection to the proposal. "Do we really want to import into our accounting a notion of materiality that is so high that by violating it you're implying that the law [governing accounting] is criminal?" he asked rhetorically. "Or are we ready to say: that standard of materiality [regarding financial disclosures] applies in one setting and other standards of materiality apply in another setting?"

Then there's the possibility that adopting a legal definition would bring large numbers of lawyers into accounting disputes. The law professor, who teaches accounting to lawyers, had a bit of fun with the legal profession's math abilities. "These guys have enough difficulty figuring out that six and seven is really 13, and they're willing to argue with me that it's 15 or 11, depending on the circumstances. I'm just wondering if it's there that we want to put things."

The law professor then proceeded to address what he referred to as the "elephant in room." He said: "If you leave the issue of materiality up to lawyers, you get lawsuits. And the lawsuits do much more than hold people liable. They also change conduct. The kind of conduct that they change is that they sometimes make it expensive and difficult to disclose the kind of material information that you and I would like disclosed in the financial footnotes."

While crediting FASB with providing leadership in defining accounting disclosures, Pat Durbin, PwC's U.S. standard setting leader, agreed with Siegel that accounting professionals should be able to apply a concept of materiality "without the need to constantly seek legal advice."

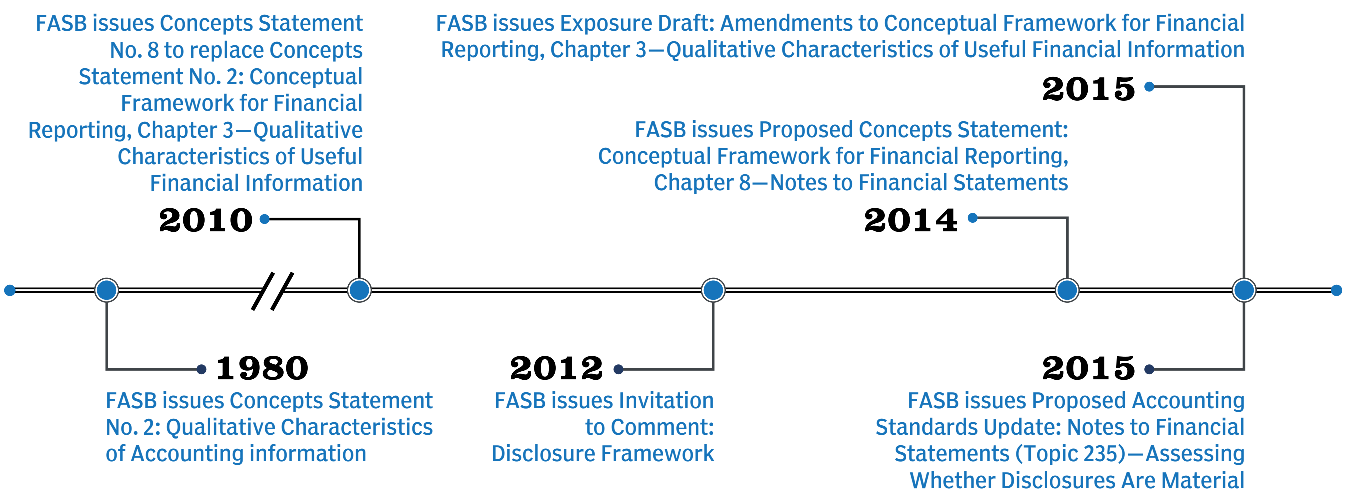
At the same time, Durbin noted that different views on a materiality standard need "to be bridged and aligned" among corporations, auditors, and investors because they are all operating within the same accounting context.

"Every accountant learns very early on that it's very important to think about materiality in everything we do. It's a learned practical concept that has been applied over time," the accountant added.

Even Marc Siegel, the one FASB member on hand at the roundtable seemed to be backing off from a purely legal definition of materiality. In working on the proposal, "I certainly wasn't ceding the entire [accounting] profession to attorneys. That wasn't what I was trying to do," he declared.

"I do think it's a living concept that has to move through time, jurisdiction, and markets," he added. The board plans to hold discussions with various stakeholders on the issue and other disclosure proposals in the third quarter of this year.

FASB's Materiality Project



Source: FASB Outlook, Q1 2016

Guarded economic outlook drives targeted investments

Executives around the world continue to have positive outlooks for their countries' economies, but that optimism has grown more tempered over the last 12 months. The latest American Express/CFO Research Global Business and Spending Monitor finds a softening global outlook, with several bright spots remaining. (See Figure 1.) This is the ninth year CFO Research has collaborated with American Express to gauge the business outlooks of senior finance and corporate executives from large companies around the world. The 2016 edition is drawn from the survey responses of 651 finance and corporate leaders.

Despite the economic uncertainty that many of the surveyed executives note, most indicate that their organizations will increase planned investments over prior-year levels. Respondents also indicate that the nature of those investments will change to reflect the current competitive environment. Specifically, investment considerations in 2016 will reflect firms' increased focus on growing domestic and neighboring markets, on spending selectively to support growth, and on using cash to secure the business and support growth.

▶ Softening Outlook, with Bright Spots

The 2016 survey finds that 71% of respondents in North America (U.S. and Canada) currently anticipate economic expansion in their countries' economies over the next year. This outlook depends largely on U.S. optimism, which is still below last year's levels, but at 73% expecting economic expansion, has risen above the global average of 65%. In contrast, at 63%, Canadian optimism has seen a significant drop from last year's 73%, likely influenced by depressed oil prices, political shifts, and slower exports.

In Latin America, 73% of respondents anticipate expansion in 2016. The strong showing for the region is led by large increases over last year's survey in optimism in Mexico and Argentina. In the case of Brazil, an eight-percentage-point decline from the prior-year level of economic optimism still places that country above the global average, coming in at 67%.

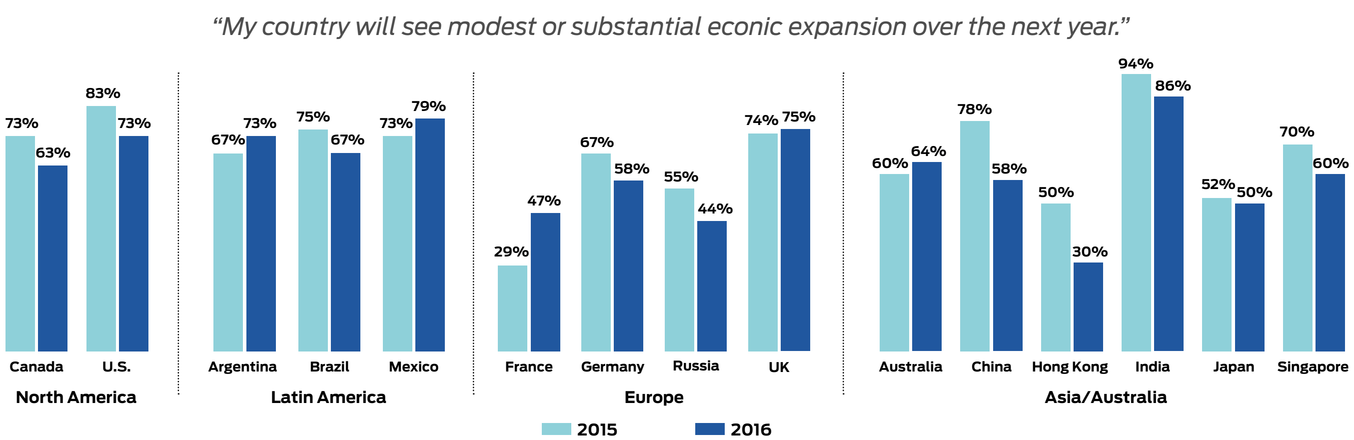
In Europe, executives have more moderate expectations for economic expansion, with 62% of respondents expressing optimism. The U.K. leads the way, remaining strong at 75%, which is nearly unchanged from last year's results. France's level of economic optimism increased significantly from last year's historic low (29%) to reach 47%. Offsetting these gains are declines in economic optimism seen in Germany and Russia versus 2015, falling to 58% (from 67%) and 44% (from 55%), respectively.

French executives ascribe their increase in optimism to favorable trade agreements and improving economies elsewhere, as well as to continued financial restructuring and the positive effects of M&A. Germany's decline may reflect concerns over a slowdown in exports to emerging markets, whereas Russia's troubles are well documented, with the country in recession and facing rising inflation.

In Asia/Australia, as well, a majority of respondents (59%) anticipate economic expansion over the next year. That said, there is significant variability in expectations for individual economies. India continues to have the highest optimism in the region (86%), reflecting aggressive spending and investment plans and a commitment to innovation and growth. Australia registered an increase to 64% (from 60% last year), in part reflecting an increasing reliance on consumer demand to offset weaknesses exposed by the country's trading relationship with China and its historical reliance on mining and commodity exports.

▶ Figure 1

Finance Executives Predicting Economic Expansion, by Country

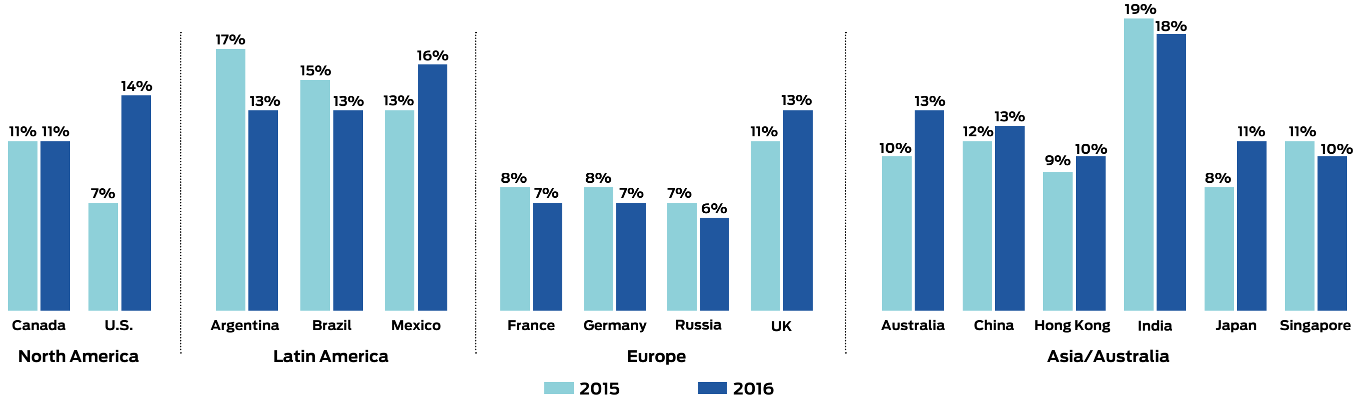


Percentage of respondents in each country predicting **"modest" or "substantial" economic expansion** over the next year

▶ Figure 2

Planned Increases in Spending and Investment, by Country

"How much do you expect your company's level of spending and investment to change during the next year?"



Average change in spending and investment over the next year

However, the region's outlook was severely undercut by a 20-point drop in optimism in China (to 58%), where companies face production issues, unfavorable exchange rates, and currency devaluation. Singapore (60%) and Hong Kong (30%) also saw double-digit declines from 2015 levels.

▶ Pragmatic Plans for Growth

Despite potentially disruptive economic and political changes around the world, survey respondents are planning to increase overall investment over last year's levels. (See Figure 2.) In fact, 87% of executives surveyed say their companies are planning to increase total spending and investment in 2016, and 49% say they are planning increases of 10% or more.

In terms of expected average spending and investment levels for 2016, Indian firms still lead the world, followed by Mexico. The largest changes from last year's levels are found in the U.S., Mexico, Japan, and Australia. In much of the rest of the world, planned increases in spending and investment reflect a more subdued approach.

▶ Focused Investment and Spending

A counterpoint to the 87% of respondents who say they will increase spending is the 61% of survey respondents who say that political and economic uncertainty will make them more cautious about increasing spending and investment. Specifically, executives indicate that they will focus on growing domestic and neighboring markets, on spending selectively to support growth, and on using cash to secure the business and fund growth.

For starters, 41% of executives are turning their attention closer to home and increasing their focus on domestic markets. This interest in seeking stability also extends to doing business in neighboring countries. For example, 76% of North American respondents expect their companies' sales will grow the most in North America. Similarly, respondents in Latin America (67%) and Asia/Australia (69%) see their strongest sales growth coming from intra-regional partners. In Europe, 47% expect to expand sales the most to Western Europe, while 28% say they will target Eastern Europe the most.

This year's survey also underscores the pragmatic and selective approach to investment and spending that executives are taking. Respondents note that they are most likely to focus increased investment in either new product/service development or in improving production efficiency—both areas that are strongly related to profitable growth. Slightly more than three in ten respondents expect to increase investment in these activities in 2016. Separately, executives also emphasized three other areas: information and security, hiring for growth, and developing finance's (and the CFO's) skill set.

Lastly, respondents have a high regard for using cash to support growth and secure their businesses. More than two-thirds (68%) say that optimizing cash flow has become more important for their firms. Strategies range from optimizing accounts receivable and accounts payable to improving collaboration and communication between different functions to investing in technologies to improve visibility into the cash conversion cycle.

Executives' plans for cash reflect the balance that companies are looking to strike between exercising caution in the face of uncertainty and pursuing new opportunities. Finding that right balance—between shielding the enterprise from increasing threats around the world, and still pursuing the growth opportunities that present themselves—has clearly moved to the top of the agenda for many executives.

Download the American Express/ CFO Research Global Business and Spending Monitor 2016 from www.CFO.com/Research

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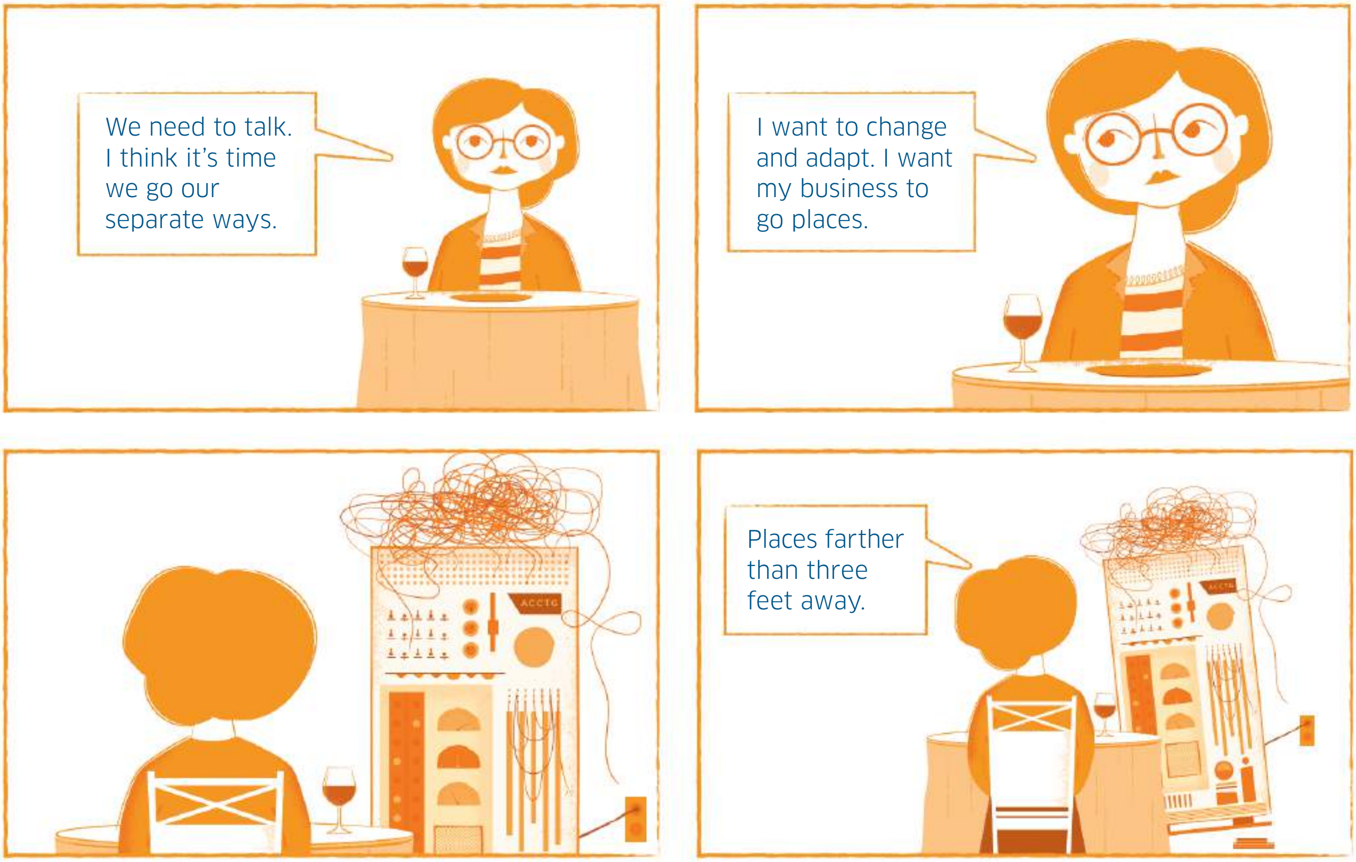

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AND THE WINNERS ARE...

CFO presents the first annual Readers' Choice awards.

★ The votes are in, and *CFO*'s readers have chosen. Chosen their favorite service providers and software products, that is—accounting firms and banks, CRM and ERP software, benefits and management consulting firms, health and property/casualty insurers, and more.

We launched the inaugural *CFO* Readers' Choice Awards in March, inviting readers via email and CFO.com to vote for their favorite candidates in 20 categories. To keep the ballot manageable, we generally listed the top 10 to 15 products or providers in each category as measured by appropriate criteria, such as market share, revenues, customers, premiums written, plan participants, and so on. We also took into account the judgment of top technology consultants. Sometimes there were more choices, other times fewer—there are only four Big Four accounting firms, after all.

In all cases, we relied on independent sources to supply the criteria for inclusion. Readers could also write in their favorites if they were not listed on the ballot.

In the end, we received more than 850 ballots from CFOs, finance executives, and other finance profesionals, although not everyone voted in every category. To find out who won, turn the page.

— EDWARD TEACH

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Accounting Firm — Big Four
Deloitte LLP

The biggest of the Big Four is Deloitte, the U.S. member firm of U.K.-based Deloitte Touche Tohmatsu Ltd., with domestic revenue of $16.1 billion in 2015. Just over half of that came from audit and enterprise risk, advisory, and tax services, while the consulting business is the fastest-growing segment. The giant firm employs more than 58,000 professionals in this country, staffing more than 100 offices in 91 cities. One of *Fortune*'s 100 Best Companies to Work For and winner of numerous awards, such as the *International Accounting Bulletin*'s "Audit Innovation of the Year" prize in 2015, Deloitte now adds *CFO*'s Readers' Choice Award to the list.

Accounting Firm — Second-Tier National
Grant Thornton

Such is the scale of the Big Four that Grant Thornton—with 58 offices, 7,300 employees, 565 partners, and annual revenue of $1.45 billion in the U.S.—is regarded as a second-tier national accounting firm, albeit the largest. But like the Big Four, Grant Thornton is a full-service audit, tax, and advisory firm, with a significant presence abroad. Grant Thornton firm has won numerous awards for workplace excellence, recently placing number 3 on Vault.com's Accounting 50, a ranking of accounting firms by quality of life and overall prestige.

Global CEO Ed Nusbaum

Accounting Software — Large Companies
SAP

Accounting software for large companies commonly comes embedded in an enterprise resource planning system or financial management suite, so it's no surprise that the winner of this category is known for its ERP software. Space doesn't permit a listing here of SAP's extensive menu of financial solutions; let's just note that the Walldorf, Germany-based vendor delivers all the accounting basics—general ledger, fixed assets, inventory, accounts payable and receivable, contract accounting, and revenue and cost accounting, all supporting local and international reporting standards—providing a single source of truth that enables faster close cycles and real-time data analysis.

Accounting Software — Small Companies
QuickBooks

The favorite accounting software of millions of accounting professionals over the past 20 years—and of *CFO*'s readers in 2016—Intuit's QuickBooks has built a commanding market share among small businesses, reportedly as high as 87%. But no market position is safe in the age of the cloud, and so Intuit offers a software-as-a-service called QuickBooks Online, which comes in a variety of versions. For example, for $79 a month, users can subscribe to a version of QuickBooks Online that adds inventory and payroll functionality to the basic financial management package. Intuit says subscribers to the SaaS offering grew to 1.26 million at the end of Q2 2016, up nearly 50% from a year ago.

HONOR ROLL: The Runners–Up

Accounting Firm – Big Four
★ **Pricewaterhouse-Coopers**

Accounting Firm – Second-Tier National
★ **BDO USA**
★ **RSM US**

Accounting Software – Large Companies
★ **Oracle**

Accounting Software – Small Companies
★ **Microsoft**
★ **Sage**

Images courtesy of companies, Wikipedia

Benefits Consulting Firm
Mercer

There's more to Mercer than the name of this category indicates. How many readers know, for example, that the consultancy offers M&A advice and due diligence? Still, human capital advisory services are Mercer's bread and butter, whether it's designing or administering employee benefit, compensation, health, and pension plans, or advising on talent-management strategy. Mercer's private health exchange, Mercer Marketplace, offers the largest range of benefits products and carrier options available on any such health exchange, according to the firm.

Budgeting & Planning Software
SAP

The contours of this category are blurring, as vendors incorporate budgeting and planning into enterprise performance management systems. Reader favorite SAP includes these functionalities and much more in its EPM product, but it also offers the simpler SAP Business Planning and Consolidation software, a budgeting, planning and forecasting solution that can be deployed on-premises or via the cloud. The cloud has become essential to SAP's strategy: by 2018, the vendor says, its revenue from cloud subscriptions and support will exceed its software license revenue.

Bill McDermott, CEO of SAP

Business Intelligence Software
Microsoft

Thanks in no small part to the large customer base for its SQL Server database and Excel spreadsheet, Microsoft is a popular choice for business intelligence software—and the top choice of *CFO*'s readers. In 2015, Gartner Group placed Microsoft as a leader in its Magic Quadrant for business intelligence platforms, citing its widely used SQL Server Analysis Services; the Power Query, Power Pivot, Power View and Power Map capabilities of Excel; and a relatively new software-as-a-service tool, Power BI, which features connections to prebuilt dashboards for third-party applications like Salesforce and Google Analytics, as well as Microsoft's own software.

Cloud Service Provider
Amazon Web Services

Ten years after its founding as a data storage service, Amazon Web Services now offers more than 70 cloud computing services in a dozen geographic regions worldwide, from analytics and enterprise applications to mobile and the Internet of Things. Its more than 1 million customers run the gamut of size and industry. Netflix recently moved all of its applications to AWS, and other companies plan to follow. What began as a sideshow to Amazon's retail business is rapidly becoming a main attraction: last year AWS generated nearly $10 billion in revenue, a pace of growth outstripping parent Amazon's during its first 10 years.

Benefits Consulting Firm
★ **Willis Towers Watson**
★ **Aon Hewitt**

Budgeting & Planning Software
★ **Oracle**
★ **Adaptive Insights**

Business Intelligence Software
★ **SAP**
★ **Tableau**

Cloud Service Provider
★ **DropBox**
★ **Google (Cloud/Enterprise)**

Commercial Bank

Wells Fargo

Wells Fargo is the third-largest bank in the U.S., with $1.8 trillion in assets and 6,200 domestic branches at year-end 2015. But in other respects it's first among its peers: in the size of its loan portfolio ($917 billion), in market capitalization (it's the world's most valuable bank), in five-year total shareholder return (14.7%)—and in the opinions of *CFO*'s readers. The British magazine *The Banker* shares their assessment, rating Wells Fargo the best global and U.S. bank of 2015. Last year the bank extended $34.4 billion in middle-market loans and $18.8 billion in new loan commitments to small-business customers, generally companies with at least $5 million in sales.

Customer Relationship Management Software

Salesforce

CRM software is a crowded field, one that includes the biggest names in enterprise software. But the leader is a comparative upstart: Salesforce. Its stunning growth since its 1999 founding illustrates the advantages of cloud computing, which can provide a wealth of functionality to customers with a dime's worth of computer infrastructure. Salesforce's software-as-a-service commanded 18.4% market share in 2014, according to Gartner, and its revenue from CRM products also led the category. The company passed $5 billion in sales in 2015, and its software is the favorite of *CFO*'s readers.

Enterprise Performance Management Software

Oracle

According to Gartner, an enterprise (or corporate) performance management suite typically encompasses such functionality as budgeting, planning, and forecasting; financial close and consolidation; financial and management reporting and disclosure; profitability modeling; and strategic planning and forecasting. Oracle's EPM suite provides all this and more, in on-premises, software-as-a-service, and hybrid cloud versions. Oracle won top ranking in Gartner's Magic Quadrant for EPM vendors for both "completeness of vision" and "ability to execute," and it won our readers' nod, too.

ERP System – Tier 1

Microsoft

Microsoft offers enterprise resource planning solutions to companies sized small, medium, and large via three Microsoft Dynamics products: GP, NAV, and AX. The latter, Microsoft Dynamics AX, competes with SAP, Oracle, and Infor in the Tier 1 ERP market, and is the winner of our Readers' Choice Award. The software is cloud-enabled and offers specialized functionality for retail, manufacturing, service, distribution, and public-sector organizations. High flexibility and ease of customization and integration are among the software's strengths, according to Panorama Consulting.

Satya Nadella, CEO

HONOR ROLL: The Runners–Up

Commercial Bank
★ **JPMorgan Chase**
★ **Bank of America**

Customer Relationship Management Software
★ **Microsoft**
★ **SAP**

Enterprise Performance Management Software
★ **SAP**
★ **IBM**

ERP System – Tier 1
★ **Oracle**

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ERP System – Tier 2
NetSuite

For more evidence of how cloud computing has changed the software landscape, look no further than the winner of *CFO*'s Readers' Choice Award for Tier 2 ERP systems. Founded in 1998 as a pure cloud company, NetSuite says its eponymous software is the most-deployed cloud-based ERP system in the world, with more than 30,000 organizations across more than 160 countries subscribing to the software-as-a-service. Last year, for the third year in a row, NetSuite was the fastest-growing vendor among the top 10 financial management system vendors on a global basis, both by revenues (40.3%) and market share (45%).

NETSUITE

Zach Nelson, CEO

Expense Management Software
Concur

According to G2 Crowd, a business software review website, Concur is one of two leaders in this category, ranking first in terms of scale (market share, vendor size, and social impact) and fifth in customer satisfaction. It ranks first in satisfaction with *CFO*'s readers. Customers of the vendor, a unit of SAP, range from the smallest firms to the largest enterprises. Travelers can access cloud-based Concur Travel & Expense via desktop and smartphone, booking flights through Concur's app. The system automatically captures itineraries and credit card charges, allows users to upload photos of receipts, and all but finishes expense reports before travelers return.

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401(k) Recordkeeper
Fidelity Investments

The runaway market share leader in terms of assets under administration ($1.4 trillion) and plan participants (17.6 million, numbers courtesy of The 401kWire), Fidelity is the heavyweight champion of 401(k) recordkeepers. Plan sponsors of the 23,000 defined contribution plans that use Fidelity's services range in size from America's largest enterprises to the smallest firms. In a recent survey of sponsors by Market Strategies, Fidelity ranked third in providing the best value for the money.

Fidelity INVESTMENTS

Governance, Risk, and Compliance Software
Thomson Reuters

Products in this category aim to integrate and coordinate a company's activities in the related and overlapping areas of governance, risk management, and compliance. The favorite GRC software of *CFO*'s readers comes from Thomson Reuters. Gartner places Thomson Reuters in the Leaders section of its Magic Quadrant for enterprise GRC platforms, while two of the vendor's risk management applications recently won awards for technology innovation from analyst firm GRC 20/20.

THOMSON REUTERS

ERP System – Tier 2
★ **Sage**
★ **Epicor**

Expense Management Software
★ **Expensify**
★ **NetSuite**

401(k) Recordkeeper
★ **Vanguard**
★ **Principal Financial Group**

GRC Software
★ **Wolters Kluwer Financial Services**
★ **IBM**

Health Care Insurer

UnitedHealthcare

UnitedHealthcare, a segment of Minnetonka, Minn.-based UnitedHealth Group, provides individual and employer-sponsored health benefits plans for 27.5 million Americans in 50 states, as well as health benefits for 11.2 million Medicare beneficiaries and 5.4 million Medicaid and community programs. A June 2015 tally ranked UnitedHealth Group first among U.S. health insurers in total premiums written ($98.462 billion) and market share (11.94%), and third in market share among 388 metropolitan areas. Tops among *CFO*'s readers, UnitedHealth has been the sector leader on *Fortune*'s World's Most Admired Companies list for six straight years.

Management Consulting Firm

Deloitte Consulting

The largest management consulting firm in the world is Deloitte Consulting, according to Gartner and Consultancy.uk, with 11.7% of global market share in 2014. In the United States, Deloitte Consulting LLP generated revenue of $7.8 billion in 2015, or 48% of the U.S. parent's income. Deloitte is the favorite of *CFO*'s readers, and their opinion is widely shared: recent surveys by *Forbes* of consultants and their clients ranked Deloitte as one of America's best management consulting firms. The firm earned top five-star ratings in a number of industry sectors and functional areas, including, not surprisingly, finance and risk management.

Punit Renjen, CEO, Deloitte Global

Property/Casualty Insurer

Chubb

As a result of its recent acquisition by Zurich-based ACE, Chubb became the world's largest publicly traded property and casualty insurer. Selling policies in North America through 14,000 independent agents and brokers, Chubb wins high marks for service: it ranked first and second for primary casualty claims and property claims, respectively, in Advisen's 2015 claims satisfaction survey. And for innovation: earlier this year Advisen, an industry news source, named Chubb its top New-Product Pacesetter for the fourth year in a row. A.M. Best gives the firm's core operating insurance companies an A++ rating, and *CFO*'s readers give Chubb an A-OK.

Evan Greenberg, chairman and CEO

Workers' Compensation Insurer

The Hartford

Based on total direct written premiums, The Hartford Financial Services Group is the second-largest workers' compensation insurer in the United States. A.M. Best gives Hartford Fire Insurance, the subsidiary that offers this coverage, an A+ rating for financial strength, while J.D. Power has recognized The Hartford's small-business call centers for excellence four years in a row. The insurer's own website recently listed more than 2,300 customer service reviews for workers' comp insurance claims, and while a number of them were negative, 97% of customers said they would recommend The Hartford. *CFO*'s readers would, too.

HONOR ROLL: The Runners–Up

Health Care Insurer
- ★ **Anthem**
- ★ **Aetna**

Management Consulting Firm
- ★ **McKinsey**
- ★ **Ernst & Young**

Property/Casualty Insurer
- ★ **The Hartford**
- ★ **Liberty Mutual**

Workers' Compensation Insurer
- ★ **Liberty Mutual**
- ★ **Chubb**

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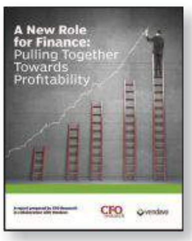

PULLING TOGETHER TOWARDS PROFITABILITY

In *A New Role for Finance*, the question of where companies can turn to gain the next few points of profit improvement in a difficult business environment is explored. The resulting insights reveal an expanding role for finance in helping their sales organizations and others make more profitable business decisions.

▸ Sponsored by Vendavo

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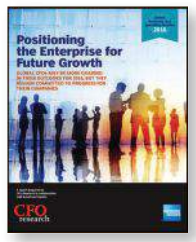

POSITIONING THE ENTERPRISE FOR FUTURE GROWTH

The 9th annual Global Business and Spending Monitor reveals more cautious spending plans in response to heightened global uncertainty. Overall, companies are likely to focus more on domestic markets, optimize cash flow, and concentrate on spending that makes the business more secure as they pursue growth.

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Expectations for CFOs to add strategic value have never been higher.

BY EDWARD TEACH

WHEN IT COMES TO CFOs AND STRATEGY, EVERYTHING OLD IS NEW AGAIN.

The appearance of the "strategic CFO" can be traced back more than two decades. Asked by *CFO* in 1994 what qualities finance chiefs should have, CEOs said that strategic thinking topped the list. Five years later, in our survey of 500 chief executives, strategic vision was deemed a more desirable quality for a CFO than industry experience and capital-raising expertise. "CEOs will almost always say that what they want most in a CFO is a strategic partner, a business partner," an executive recruiter told us at the time.

The financial scandals at Enron and WorldCom and

the subsequent passage of Sarbanes-Oxley revived the demand for finance chiefs with strong accounting skills, but the need for strategic CFOs has only grown stronger. KPMG, which recently conducted its own survey of 549 chief executives across the globe to understand their expectations for CFOs, noted in its report that "every CEO with whom we spoke gave examples of how much they rely on their CFO for strategic guidance."

Changes in the business environment are strengthening the case for strategic input from finance. David Wessels, adjunct professor of finance and director of executive education at the University of Pennsylvania's Wharton School, cites two trends that are elevating the role of the CFO. One is the rise of matrixed organiza- ⟶

Getty Images

tions, which place more power in functional leaders. With distributed power, "few executives have complete control over the P&L," says Wessels. "The one person who has total visibility into all components of the firm via the P&L is the chief financial officer."

The second trend is the growing importance of capital markets. CEOs have to be completely versed in how the markets work, says Wessels, and they need CFOs to help them navigate such issues as whether or not to raise capital, make investments in the firm, change the payout policy, and so on.

To these trends add business transformation, frequently involving the adoption of digital business models. And a fourth trend is the ever-increasing power of information technology. "Leading CFOs owe their growing clout to a truly granular and holistic view of data," two Accenture Strategy executives declared in a 2014 article.

Overall, the role of the CFO is changing from traffic cop to city planner, says Wessels. Instead of focusing on infractions, he explains, finance chiefs are "acting like business consultants and changing the system."

TRANSFORMING ROLES

One finance chief helping to change the system is Christopher Chapman, CFO of Diebold, the North Canton, Ohio-based ATM maker. Although Chapman is just 42, he has spent his entire career at Diebold, serving as head of its international finance organization and getting "steeped in the operations of the company" before becoming finance chief in 2013, as he told *CFO* last year ("Diebold Grows Bold," July). He continues to play a key role in "Diebold 2.0," the ongoing transformation of the 157-year old company into a services-led, software-enabled provider of financial self-service and security solutions. Currently, Chapman is devoting most of his time to the planned acquisition of Wincor Nixdorf, the third-largest player in the ATM industry.

Chapman considers himself a strategic partner to CEO Andy Mattes in implementing Mattes' vision for the company. "I think you *have* to be [a strategic partner]," he says. "All of the senior leadership team gets involved in that conversation in some fashion or another. It's absolutely critical." To transform a company, says Chapman, "you have to be grounded in reality—the reality of the opportunities of the business. I've been involved in many aspects of the business, so I have a good command of what's going on at Diebold, across a lot of the geographies we're in." Plus, the finance chief says he's well versed in the evolution of Diebold's industry over the past 20 years.

Another CFO working to change an even older company is Raj Agrawal of Western Union, the global money transfer and payments company. Founded 165 years ago on leading-edge technology (the telegraph), Western Union is again building on new transmission capabilities: the Internet and mobile devices. Agrawal is heavily involved in implementing the new strategy.

"Western Union has been on a journey the last several years to utilize the key assets we've built with our retail business and add a strong digital presence," he says. The consumer-to-consumer business generated 78% of the company's $5.4 billion in revenue last year, largely from migrant workers sending cross-border remittances to their families or bank accounts. The company operates in more than 200 countries and territories, with more than 500,000 agent locations and 100,000 ATMs and kiosks.

Now, Western Union is rolling out digital channels to attract customers who prefer to use a PC or mobile device—and, in the process, fend off a growing threat from fintech startups. So far, so good: 80% of the consumers visiting wu.com are new customers, says Agrawal. Those visitors can send money online from 36 countries to retail locations anywhere in the world, or to more than 1 billion bank accounts in more than 50 countries. Today, wu.com is a $300 million business, growing 26% in 2015.

The role of the CFO is changing from traffic cop to city planner, says Wessels. Finance chiefs are "acting like business consultants and changing the system." —**David Wessels**, adjunct professor of finance and director of executive education at the Wharton School

Western Union has also introduced a new money-transfer product called WU Connect, which is embedded in messaging and social media applications. By partnering with services like Viber and WeChat, the company can potentially attract millions of new customers, the CFO says.

Agrawal, who joined Western Union as treasurer in 2006, completed two assignments in Europe and headed the company's Business Solutions unit before becoming finance chief in 2014. "My role is to be involved in the strategy of the company and the execution of the strategy," he says. "I'm very

Courtesy Wharton School

focused in that way. I have a very strong finance team that knows the day-to-day, and obviously I know the day-to-day."

Does he consider himself the right-hand man of CEO Hikmet Ersek? "Right-hand *and* left-hand man," replies Agrawal with a laugh. "He has a high comfort level with me and the financial function, which he looks at as more of a strategic function. When we talk, we talk about the strategy and direction of the company. We talk about finance when we need to." Ersek respects his opinions, says Agrawal. "I have a strong voice at the table, but ultimately he has to make the final decision."

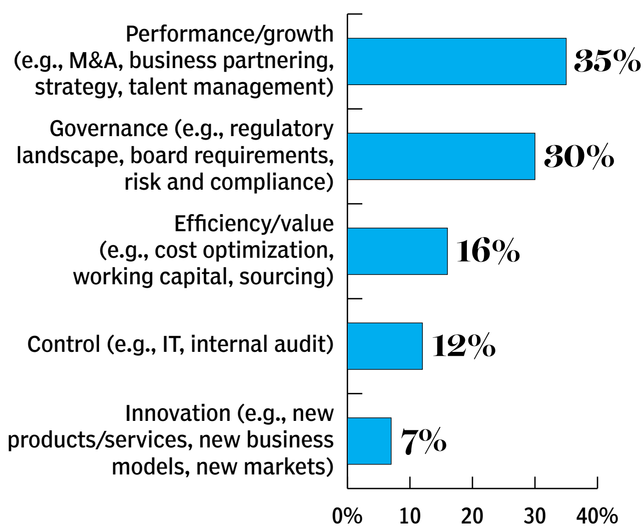
No "Dr. No," Agrawal is receptive to new proposals. "My first response is to say, let me hear more about it, I want to learn more," he says. The CFO says he constantly seeks to maximize value for the company. "It's not about whether we have enough money or not," he says. "It's about reprioritizing the resources we have if the right opportunity presents itself."

As for communicating the company's strategy, "you cannot do enough," says Agrawal. "The only way to get a strategy across is to tell it over and over again, to all levels of management, to the board, to stakeholders. You have to make sure the executive team is all aligned and speaking the same language."

The CFO says he's "very excited about our future and the opportunities ahead along the digital journey." At the same time, he's "very satisfied, because ultimately we're helping people around the world get money to their loved ones."

STRATEGIC WORTH

Where CEOs see the greatest opportunity for CFOs to contribute to corporate value



Note: multiple responses allowed
Source: KPMG, "The View from the Top," 2015, survey of 549 CEOs

No "Dr. No," Agrawal is receptive to new proposals. "My first response is to say, let me hear more about it, I want to learn more."

—**Raj Agrawal**, CFO, Western Union

STRATEGIC TECHNOLOGY

If data analysis and forecasting are integral to strategic planning, then more-powerful software tools for those purposes should help finance chiefs contribute more strategic value to their companies. Indeed, in KPMG's CEO survey, three of the top five CFO initiatives thought to add the most strategic value to an organization involved financial data analysis or forecasting, with "achieving profitable growth through financial data analysis" at number one.

In a 2015 survey by Gartner and Financial Executives International, finance executives ranked corporate performance management applications as their highest priority for investments in business intelligence and analytics tools. CPM suites comprise budgeting, planning, and forecasting; financial consolidation and close; performance measurement; profitability modeling; and more. (For an overview of CPM software and its leading vendors, see "High Performance," *CFO,* May 2015.) By capturing and integrating data from data warehouses, ERP systems, and other sources, the software provides managers with a shared set of key performance indicators and metrics—a "single source of truth"—and enables companies to move from trend-based to driver-based planning and forecasting.

"For example, our customers might incorporate actuals from the general ledger, data from customer-facing systems like Salesforce or Marketo, and information from their HR IS systems," says Tom Bogan, CEO of Adaptive Insights, a cloud-based CPM vendor. "If I'm the sales leader, I get my metrics from the corporate planning system—my sales force productivity, my quota coverage, my productivity targets." In turn, those KPIs are used as drivers in financial plans.

Using CPM software, finance chiefs become custodians of all the metrics for the company, not just the financial ones, says Bogan. As a result, they become much more closely involved in strategic planning, he says.

Moreover, many companies have used CPM tools and driver-based planning to adopt rolling forecasts, frequently looking ahead eight quarters. The software also enables users to conduct scenario planning, particularly important

Courtesy Western Union

during times of economic uncertainty. "We saw this at the beginning of the year, with concerns about currency rates, economic conditions in Europe and China, and so on," says Bogan. "Most boards were asking companies to run multiple business scenarios to find out how the business would potentially perform where the risks were."

In April, during Adaptive Insights' annual user conference in San Jose, California, 55 finance chiefs gathered in a separate CFO symposium to share their experiences with the vendor's software and to discuss how it could boost finance's contribution to strategy. Himself a former CFO, Bogan draws a distinction between tactical finance—getting the numbers right, doing budgets on time, and so on—and strategic finance, which is "being fully integrated into the business, partnering deeply with operating leaders, being able to update your forecast and view of the business on a regular basis." Most of the companies represented at the symposium were somewhere in between, he says.

What struck Bogan was that much of the CFOs' discussion wasn't about the software per se, but rather about driving change through the organization. There was "a strong desire" among the attendees to help their companies become more agile, he says, and "the culture of managing that change was a more significant issue to them than implementing the tool."

PLAYING CHESS

Increasingly powerful analytics tools are "part of the equation" of becoming a strategic CFO, agrees the Wharton School's Wessels. "But better data doesn't get you the solution," he adds. "What gets you the solution is asking the right questions. If you're asking the wrong questions and not identifying the root cause of issues, you're wasting time."

To help finance chiefs ask the right questions (and find good answers), Wharton's executive education department offers a twice-annual program called "The CFO: Becoming a Strategic Partner." Taught by Wessels and other Wharton faculty in finance, strategy, and leadership, the weeklong program is designed to raise senior financial executives' strategic IQs through lessons in corporate strategy, game theory, optionality, and more. Business is like chess, says Wessels; "you have to think a few moves ahead" to anticipate how customers, competitors, investors, and stakeholders are likely to respond to actions. "It's not enough to make a few linear moves one after another," he says. "It's really about thinking through how the game, or your market, is likely to evolve."

Attendees put theory into practice through case studies, worked on by teams of executives who propose a course of action for difficult scenarios where there is no single best answer. One recent case, for example, involved an upstart airline that wanted to challenge a larger incumbent by entering a lucrative market. The question that participants had to think through was not just how customers would respond to the move, but also how the larger airline would react, says Wessels. Would it maintain its ticket prices and cede a piece of market share to the upstart? "Or would it attack? If so, could you survive an attack, and for how long?"

Other cases are integrative, where executives must call on different skills and functions to solve a business problem. Imagine, says Wessels, that you're the new CFO of a fast-growing convenience-store chain. How will you position the chain strategically? What resources should marketing receive to reach the target demographic, and how can supply chain assure that the right products are delivered to the right markets? "CFOs are increasingly organizing this entire mix, because, again, they are the ones ultimately responsible for the entire P&L," says Wessels.

Concerns about currency rates and economic conditions in Europe and China put a premium on scenario planning, says Bogan.

Such strategic thinking may be underdeveloped in CFOs who came up through the accounting ranks and had to play the role of traffic cop, says Wessels. "It's only when they move into a position of leadership that they suddenly must transition into a new role, a more consultative one." The largest companies often prepare finance staffers for that transition by rotating them through various functions and geographies, while smaller companies may send them to external training programs like Wharton's, "where we provide new tools around market selection, competitive advantage, and capability building that they haven't seen before," says Wessels.

One of the program's most popular sessions deals with the science behind influence. After all, the best-laid strategic plan may fail if an organization doesn't buy into it. "I think every one of us can use a tune-up in persuasion," says Wessels. A soft skill, perhaps, "but there is a tremendous amount of research behind how people react in certain situations, and you can use this research to help shape a decision. Remember, no one can change someone else's mind; they have to change their mind themselves."

To be strategic, it seems, CFOs need more than mastery of advanced analytics or game theory. They need one of the oldest skills of all: how to tell—and sell—a story. CFO

EDWARD TEACH IS EDITOR-IN-CHIEF OF *CFO*.

Courtesy Adaptive Insights

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New Cures for Health Costs

Innovative ways to engage employees offer hope for bringing health care spending under control. By David McCann

Even as increases in the cost of health care have moderated significantly in recent years, for finance departments the issue remains a festering wound. After many years of shifting costs to employees and promoting programs designed to keep them healthier, employers—large ones, that is—are still experiencing average annual cost hikes of about 4%. Smaller firms are faring even worse. And more complications loom, thanks to the 40% excise tax imposed on high-cost health plans by the Affordable Care Act. In December Congress delayed the tax's effective date from 2018 to 2020, but nevertheless the reprieve is only temporary.

Many studies have shown that, because scheduled increases in the tax are tied to the Consumer Price Index rather than the perpetually higher rate of medical cost inflation, virtually all companies will likely be subject to the tax within a few years of 2020. In a recent study by Willis Towers Watson, 70% of the 467 responding employers said the delay will have a small or negligible impact on their health care strategies for 2017.

Indeed, the discussion about companies having to get their costs down specifically in order to avoid the excise tax is an "odd" one, observes Randy Abbott, senior health and benefits strategist for Willis Towers Watson. "The survey result is not surprising, because employers have been managing health care costs aggressively for many years," Abbott says. "The mindset that the excise tax [is driving that effort] kind of presumes that employers hadn't been doing anything in the meantime."

Barring a repeal of the excise tax, which could happen if Donald Trump is elected president, companies will have no choice but to redouble their efforts to hold costs at bay. Fortunately, new approaches on the cutting edge of health care cost management may provide opportunities to make some headway.

Going Holistic

There's always a cutting edge in health care cost management, and over time the companies that are most progressive in that arena tend to have a 2.5 percentage point advantage over the field, according to Brian Marcotte, CEO of the National Business Group on Health (NBGH), which represents the perspectives of its 425 employer members on health policy issues.

That is, if the trend in health cost increases is 4.5%, the progressive employers will be around 2%—and will remain immune to the excise tax for much longer.

To Marcotte, the cutting edge is about addressing employees' health needs from a holistic standpoint.

With traditional corporate wellness programs, he notes, someone who's at risk for high blood pressure or cholesterol, say, merely gets incentives to see a doctor, work with a health coach, or follow a treatment regime.

"Now some companies are beginning to evolve those strategies," Marcotte says. "They're looking at social determinants of health, including individuals' emotional well-being, financial well-being, community well-being, and social connectedness. For example, someone at risk for high blood pressure who happens to be heavily in debt is probably thinking more about putting food on the table than about blood pressure."

To address such situations, a company that has historically offered programs to help employees prepare for retirement may now implement financial well-being programs tailored to various stages of life, Marcotte suggests. The point is that employees need more help staying healthy than they've typically been able to obtain from wellness programs.

Increasing Engagement

Another cost-control strategy is the use of health care engagement services—companies that serve as intermediaries between employees and health care providers. Firms like Accolade and Quantum Health "support employees end to end, whether for benefits questions, health care issues, health improvement coaching, or navigating the health care system," says Marcotte.

Thinkstock

Each offers easy access to health clinicians. The greatest cost savings are realized when employees that need high levels of care form a relationship with a knowledgeable person who understands their health profiles as well as their employer's health benefits.

So far, such intermediaries haven't "taken off in a huge way," says Jordan Silvergleid, a vice president at The Advisory Board Company, a health care research and advisory firm. That's because the services they provide, with clinicians getting very involved in patient care, are expensive. Still, "the savings often can make up for the per-member, per-month cost," he adds. "They are best suited for companies with older or sicker populations that have more complex cases."

Temple University Health System is trying a different approach with Accolade. Starting last July, at the beginning of Temple's 2016 fiscal year, Accolade is providing services to the 6,400 employees and their dependents participating in the four-hospital system's health benefits programs. The two parties set a budget for Temple's internal medical and pharmaceutical spending for fiscal 2016. If actual spending comes in below budget, Accolade will share in the savings. And if spending goes over budget, "we will both feel the pain," says CFO Robert Lux.

Through the first six months of the fiscal year, spending was "a couple of million dollars" below the budget for that period, he says. Lux declines to say what spending level the budget calls for but claims that it represents a smaller increase from prior-year spending than the national average for employers.

"I had run the gamut on being able to get savings from changing benefit plan design, switching to self-insurance, and better managing drug costs," Lux says. "We needed to do something different—something that was going to engage employees and their families in a more active world of wellness."

Getting Results

Consulting firm Aon Hewitt partnered with an unnamed provider of health care engagement services on an extensive, seven-year study of how health care engagement services affected a large national employer. The study, which focused on heart disease and diabetes patients, showed the following:

- A decline in the hospital admission rate from 70.5 per 1,000 plan members in 2006 to 52.3 in 2013.
- Hospital days per 1,000 members fell from 309 to 240.
- Average in-patient admissions costs for acute care increased by just 1.8% during the seven years, compared with a national benchmark of 6.9%.

Under the arrangement between the employer and the engagement services firm, the latter offered to act as adjunct members of physicians' staffs, keeping the doctors' costs down while providing cost-saving services to employers, says David Fortosis, senior vice president of health strategy for Aon Hewitt.

"Neither primary care doctors nor specialists have the time to follow up directly with patients to make sure, for example, that they're adhering to their care plan," Fortosis says.

Only the most forward-thinking employers will consider such arrangements at present, he adds. "We're talking with clients about it a lot. Many of them still believe their carrier is doing a good job. Also, the employer has to front some money to pay for the third party in order to bring the benefits on the back end."

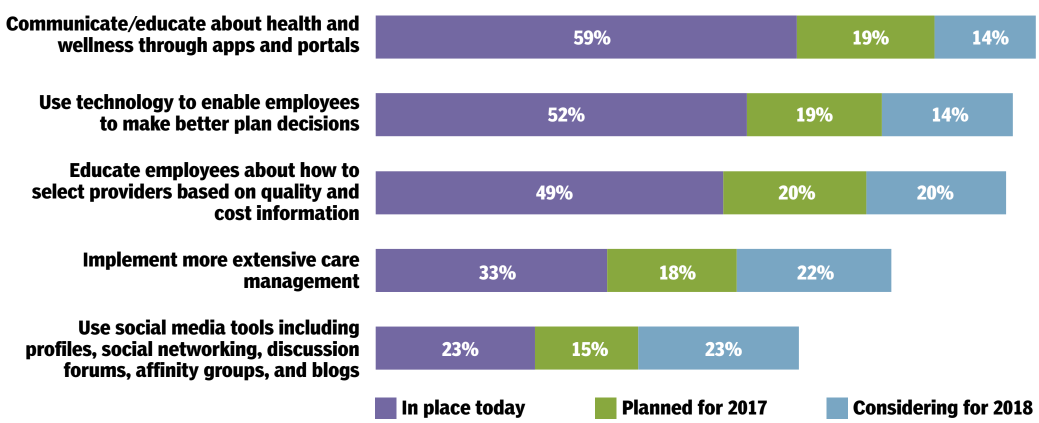
Embracing Technology

Hardened finance types might consider "engagement" to be a soft concept with no bottom-life benefit, but it's a powerful one when it comes to health care, says Marcotte.

NBGH hosts two summits per year for its employer members. At the most recent one, attendees were asked to text a word or a two-word phrase representing what "keeps them up at night" regarding the provision of health care benefits. The more often a particular word was typed, the larger that word appeared on a screen in the conference

ATTENTION, PLEASE

Which of these engagement activities is your company doing now or considering for use by 2018?



Source: Willis Towers Watson, survey of 467 companies with at least 500 employees room. The word "engagement" dwarfed everything else on the screen.

"Engagement came up in every session we had," Marcotte says. "Companies are struggling with how to engage people in the use of resources they are making available."

For instance, if a company offers a new program for people contemplating knee or hip surgery, it may put out a communication that sweeps in people considering surgery at that time. But someone who begins to have a knee or hip problem six months later probably has forgotten that the service is available.

In response to that issue, NBGH has formed a health innovations forum in which member companies like Boeing, Lowes, and Walmart vet startup health technology vendors, especially those that combine data with technology and push communications to employees at the time they have a need.

The vendor that has generated the most buzz is Livongo, which provides a glucose-monitoring unit to diabetes patients and communicates with the unit just after patients take a finger-prick test. "If you're hypoglycemic, you get a communication right then about the things you can do to correct that," Marcotte says. "What makes the difference is that you receive that communication at a moment when you're not feeling well."

Lowes conducted a pilot test with 742 diabetic health plan members starting in December 2015 and considered it successful enough to make it available to all 120,000 employees, about 5% of whom are diabetic, according to Bob Ihrie, senior vice president of compensation and benefits. The company took action after its health care "navigators"—employees of Accolade and Quantum Health, both of which it has contracts with—informed Ihrie that many diabetic employees weren't controlling their glucose levels because they couldn't afford the tests.

That prompted Lowes to hire Livongo and also to provide the employees with free test strips, saving them $60 a week. "We don't offer a lot of broad-based incentives to our employees, but it makes sense to offer one like this to people that we know are likely to end up with claims," Ihrie says.

Marcotte of NBGH cites Hello Heart, an application for controlling blood pressure, as a promising tool. And Silvergleid suggests companies look into Zipongo, a new nutrition app, Sleepio, which helps with sleep management, and Healthiest You, an easy-to-use alternative to telemedicine providers like Teladoc and American Well. "There are just a huge number of these apps, because Silicon Valley folks are getting tons of money to fund health care startups," he says.

So, do companies that employ such highly personalized engagement strategies have a chance to fend off the impending Affordable Care Act excise tax? Yes, says Marcotte—with a big caveat. "The cutting edge is not doing just one of these things," he says. "It's doing everything you can to look at the health of your work force as part of your overall business strategy."

DAVID McCANN IS A DEPUTY EDITOR AT CFO.

Cost-Trend Mirage?

Health care costs for large employers are once again moderate this year, estimated to rise an average of only 4% from the 2015 level, according to Willis Towers Watson.

This year's annual Emerging Trends in Health Care survey—which counted 467 respondents, all from companies with at least 500 full-time employees—was the fourth consecutive one showing an increase of less than 5%. Those four annual increases were also the four smallest of this century.

But the recent, relatively modest upward cost ticks may not warrant much celebration, as a more salient statistic is the difference between health-cost inflation and general inflation. We wouldn't be hearing so much about the former if it weren't far outpacing the latter.

The CPI-U—which tracks inflation experienced by urban consumers—inched up by only 0.1% in 2015, the second-lowest since 1962. The CPI-U climbed at rates lower than historical norms the previous two years as well, at 1.5% and 1.6%, respectively.

Health cost inflation can grow at a greater rate than seen last year but still represent a rosier outcome. For example, in 2008, the CPI-U was up by 3.8%, or more than two-thirds of the 5.3% health care cost hike.

By comparison, last year's 0.1% consumer inflation was just one-fortieth of health cost inflation.

D.M.

Inflationary Tale

Medical/pharmaceutical cost trend compared with CPI-U[1], year over year, 2010–2016

Cost	Trend	CPI-U
2010	6.8%	1.6%
2011	5.5%	3.2%
2012	5.5%	2.1%
2013	4.2%	1.5%
2014	4.9%	15%
2015	4.0%	0.1%
2016	4.0%[2]	1.1%[3]

1 Consumer Price Index for urban consumers
2 Projected
3 Q1 2016 over Q1 2015
Source: Willis Towers Watson, survey of 467 companies with at least 500 employees

Are Your Customers Being Served?

A CFO Research survey finds companies striving to improve post-sales service.

By Chris Schmidt and David W. Owens

Excellence in post-sales service can be a boon to a company's attempts to bolster the bottom line and support business growth. These are key findings of a recent CFO Research survey of 126 senior finance executives at U.S. firms with revenues greater than $100 million, sponsored by OnProcess Technology.

For the purposes of the survey, we defined after-sales or post-sales service as any service required to ensure customer satisfaction following the purchase of a product or service. Post-sales service could include installation and training, customer support, complaint resolution, repair and maintenance, fulfillment of service-level agreements (SLAs), returns and replacements, and servicing of guarantees and warranties.

A strong majority (82%) of survey respondents say their company could realize meaningful financial benefit from improving customer satisfaction with post-sales service, and nearly as many (78%) believe that post-sales service will be an increasingly important competitive differentiator for their firm. One CFO survey respondent explains that excellent post-sales support would result in his firm "realizing multiple simultaneous opportunities to strengthen relationships and cross-sell."

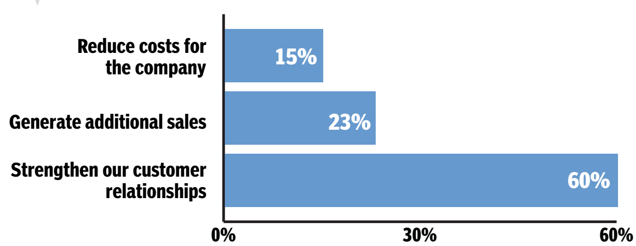
LOYALTY AND SATISFACTION

In fact, customer satisfaction is the most important measure cited in companies' evaluation of their post-sales service, selected by 48% of respondents. And 83% of respondents say that improving the quality of post-sales service would boost customer satisfaction at their companies.

It is becoming more important than ever to focus on after-sales service, as 69% of respondents say that it has become much more difficult to cultivate customer loyalty and retain customers. At the same time, 60% of respondents cite strengthening of their customer relationships as the most compelling reason to improve post-sale services. (See Figure 1.)

FIGURE 1

The most compelling reason to improve my company's post-sales service is to:



Note: Excludes "Don't Know/Not Applicable" responses

THE RESOURCE QUESTION

Clearly, finance executives believe that a loyal customer is a customer who will buy again, with predictable frequency and margins, as well as with lower sales cost. However, survey respondents also outline the challenges finance teams face in committing the resources needed to address these problems—measured in time, money, and management attention.

One key for improving post-sales service is closer coordination among the many different activities and functions that make up the service supply chain. A customer doesn't care about your company's functional siloes; he or she only judges your company on how well their critical needs are being met.

But, while visibility into post-sales services is essential for optimizing outcomes, 68% of respondents believe their company could improve management visibility into total, end-to-end costs for providing post-sales service. An EVP of finance describes the ultimate goal: "Both changing the culture to be more service-oriented and improving the communication process so post-sales follow-ups are unique to the individual who is utilizing the product ... which could lead to increased cross-sell opportunities."

Three-quarters of survey respondents agree that their companies could improve post-sales service substantially. And the post-sales stakes are rising for companies and their finance chiefs. Looking forward, 58% believe that, over the next few years, business growth is likely to substantially increase their costs for providing post-sales service.

When asked to describe the biggest challenges they face in providing excellent post-sales service, survey respondents most often cite difficulties in prioritizing and coordinating post-sales activities. Marshaling the resources needed to tackle the problems remains a stumbling block to improvement efforts. As a VP of finance writes: "Associates still do much of the work and tracking by hand. They have many, many competing priorities."

COST SAVINGS

The lack of coordination also has cost implications. CFOs readily agree that improving post-sales service can deliver substantial cost savings. Of the areas tested that deliver direct cost savings, elimination of redundant or duplicated work in post-sales service is cited by 71% of respondents. (See Figure 2.)

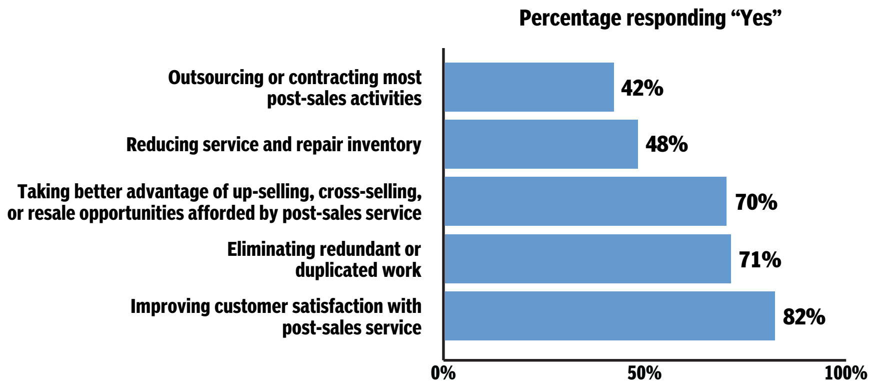
Finance executives also signal that improved process efficiency has the potential for widespread impact, with 43% of respondents believing that improving processes and eliminating redundancies could reduce the cost of post-sales service by more than 5%.

Asked to identify the specific post-sale service components that represent the greatest opportunities for cost reduction, respondents most often say they will target customer service/call center operations (37% of respondents), followed closely by fulfillment of service-level agreements (33%). Customer training and support (23%), repairs and replacements (21%), and inventory and warehousing (19%) round out the top five opportunities for cost reduction.

The cost argument for outsourcing also remains compelling. Of respondents that currently employ outsourced or contracted post-sales services, 49% indicate that outsourcing additional activities could reduce the total cost of post-sales service by more than 5%.

FIGURE 2

"Does your company have an opportunity to realize meaningful financial benefit from making the following changes in post-sales service?"



Interestingly, respondents say that when they are considering a decision to outsource post-sales service, it is based on more than just the potential cost savings. In fact, of respondents that currently employ outsourced or contracted post-sales services, 59% say they do so in order to take advantage of the dedicated service or specialized expertise of the provider. By comparison, lower cost is cited as the primary motivation by 37% of this group of respondents.

FOCAL POINTS

The survey found no shortage of improvements for finance chiefs to focus on—primarily related to the need for better coordination, control, and information. For example, a CFO writes that he needs "better data [and] better analysis of data." Another CFO notes that he "needs the tools to track our follow-up with our over 40,000 customers and to determine the effectiveness of such follow-up."

When asked specifically which improvements in post-sales service would be most beneficial to their companies, 50% of the respondents select better communication and coordination between different functions. Better data on customers and service events is seen as most beneficial by 41% of respondents.

Better execution of individual processes is selected by 35% of respondents. To achieve that, a CFO writes that he needs "defined objectives to improve service and reduce cost, as well as accountability for making progress in meeting those objectives."

Finally, aligning different activities with common metrics (27%) and greater visibility into and control over end-to-end processes (23%) round out the top five improvements. A CFO adds, "We have to make a better realignment between the quality and service structures within the organization so no issue is left unresolved due to lack of ownership."

In the end, the CFO Research survey confirms that finance executives are turning more and more attention to streamlining and optimizing post-sales services, as the next area of opportunity for boosting their companies' performance. What will make the effort worthwhile are the cost savings CFOs can deliver to the bottom line, at the same time that they are strengthening customer relationships in the service of strategic goals. CFO

THE QUIZ

Shake It Off

In the summer, music from parks, passing cars, and backyard barbecues fills the air. Of course, today, the guitar solo in Sweet Child O'Mine is more likely to be emanating from a Bluetooth speaker connected to an iPhone. Despite the recorded music industry's struggles, it has proven to be supremely adaptable. Are you on top of the industry's changes? Take our quiz to find out.

1 The global recorded music industry grew revenue 3.2% in 2015. Match the region with its industry growth rate last year:

A. 11.8%	1. Europe
B. 1.4%	2. Latin America
C. 5.7%	3. North America
D. 2.3%	4. Asia

2 Global revenue from digital formats surpassed revenue from physical formats (CDs, vinyl, etc.) for the first time in 2015. What percentage of the industry's revenues did digital represent?

A. 35%
B. 50%
C. 60%
D. 45%

3 Consumers in a number of major world markets still buy most of their music on CDs and vinyl. In which country do physical formats still make up 75% of recorded music industry revenues?

A. Germany
B. France
C. United Kingdom
D. Japan
E. Mexico

4 Song streaming services have become one of the most popular ways consumers listen to music in the U.S. What percentage of global recorded music revenues did they represent in 2015?

A. 38%
B. 9%
C. 19%
D. 28%
E. 35%

5 What song was the most streamed on Spotify for 2016, as of May 18?

A. This is What You Came For—Calvin Harris
B. Panda—Desiigner
C. Work—Rihanna
D. NO—Meghan Trainor
E. One Dance—Drake

6 What song is the best-selling single of all time on iTunes, with more than 15 million units sold?

A. Just Dance—Lady Gaga
B. Viva La Vida—Coldplay
C. Don't Stop Believing—Journey
D. I Gotta Feeling—Black Eyed Peas
E. Single Ladies—Beyonce

Answers: (1) A-2, B-3, C-4, D-1; (2) D; (3) D; (4) C; (5) E; (6) D

Sources: Global Music Report, IFPI; Spotify

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