



# BREAKING DOWN **BUSINESS SILOS**

When Finance, Procurement, and Operations Work Together, Everyone Benefits

## INTRODUCTION

Organizations need to continually innovate with new products and services, but the siloed business processes of the procurement, finance, and operations functions can undermine those efforts.

Here's how a typical siloed process operates: An investment to support growth and enhance service often begins with operations, which is tasked with building a case that the investment will yield a sufficient return. However, operations will typically submit their funding request without full insight into the pressures on the procurement and finance functions.

If operations succeeds in justifying the investment, it moves to finance, which must consider the broader implications of the business decision and weigh the likely return from this project against others vying for funding. Finance relies on the pitch from operations regarding the need for this product or service, and the legwork of finding a source/vendor typically falls outside the finance function and with procurement.

Once the project gets the green light from finance, the next stop is procurement, which is tasked with finding the right vendor and the right price.



Procurement receives the list of requirements from operations, often without a complete understanding of how this product or service will be implemented throughout the organization. Their job is to identify many potential sources in the market so they can generate a competitive RFP that checks off most of the operational needs and meets cost thresholds.

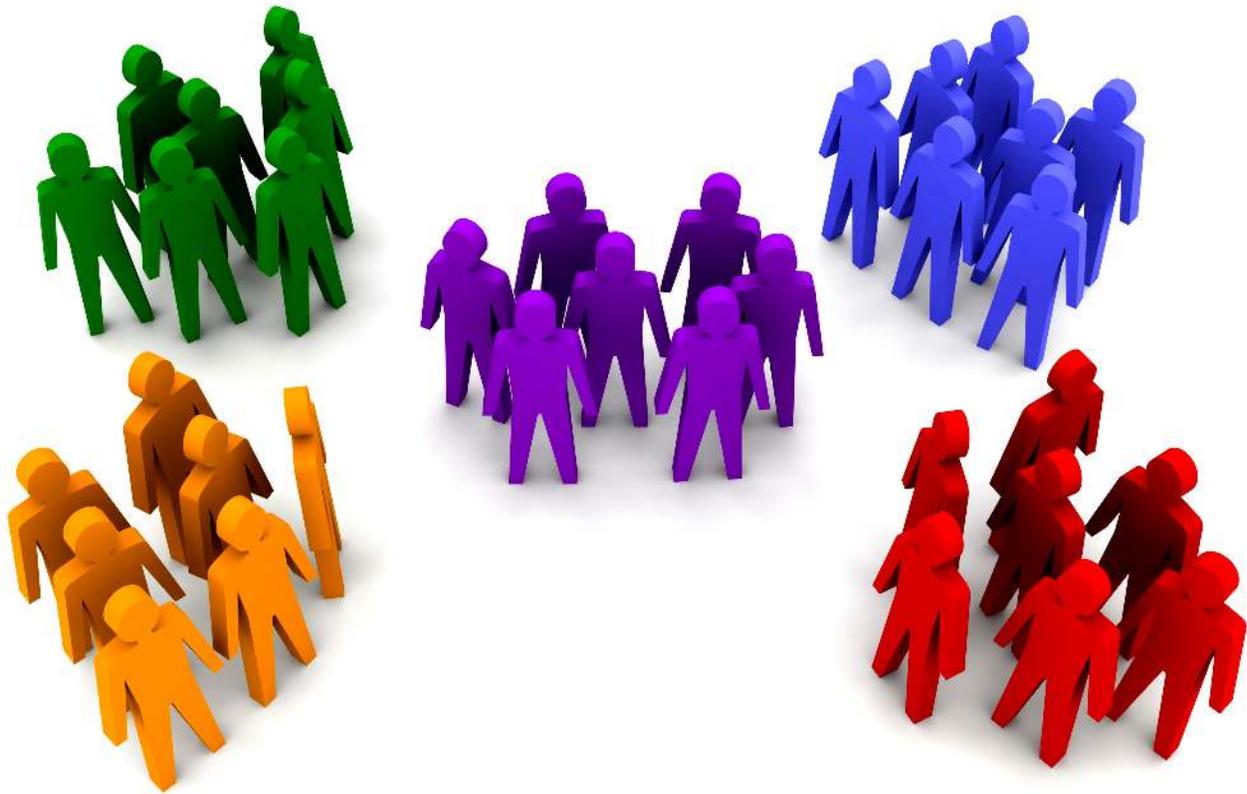
**The result:** Critical business decisions are made without optimal input from all parties. Siloed processes prevent departments from collaborating to find the best solution.

All stakeholders should have complete visibility into the entire process to understand the need and determine the most cost-effective solution with the highest ROI.

This white paper will examine the drawbacks of siloed business functions and ways that CFOs can lead the charge for more integrated solutions to support better decision-making.

#### Topics include:

- ▶▶ The challenges of siloed decision-making, including purchases that meet the requirements of an RFP but fail to consider things such as the need for additional support/training or the varying requirements of different locations.
- ▶▶ The importance of CFOs in leading the charge to get all three departments working together to save the organization money, drive efficiency, and communicate the big picture.
- ▶▶ The benefits of breaking down the silos and encouraging collaboration among operations, finance, and procurement, including more agile decision-making driving a greater ROI.
- ▶▶ The role of technology in developing an un-siloed approach to business that provides a better return on any investment.



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— Patrick Gaskins, Senior Vice President of Sales and Operations, Capital Equipment, Corcentric

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## WHEN SILOED DECISION-MAKING STIFLES PROFITABILITY

When it comes time to explore a new product or service, operations is often the initial champion. As users, rather than developers, operations engages in the sales/purchasing process with the product or solution provider, a role that is not their core competency.

“Often, operations will identify a need for a new piece of equipment, or the need to invest in a product or service, but they typically haven’t sat down at the table with finance and procurement to work out the

impact on the overall business,” said Patrick Gaskins, Senior Vice President of Sales and Operations, Capital Equipment, Corcentric, a leading provider of procurement and finance solutions.

To fund the project, operations turns to finance, the keeper of the corporate funds. If finance isn’t aware of the detailed needs for the investment and the sourcing strategy, they can end up allocating the funds elsewhere. By failing to collaborate with operations and procurement, finance could



potentially generate massive increases in variable expenses by not investing in an asset or program.

To complicate matters, procurement isn't always privy to the cross-departmental needs of the organization. They are following the general mandate of their department to broker the best or least expensive deals. "The problem with this approach is that cost is an insignificant target if quality and quantity can't be sustained," said Chuck Franzetta, CEO, Franzetta & Associates, a supply chain management consulting firm.

Below are a few examples of how the process can unravel when operations, finance, and procurement aren't completely aligned.

- ▶▶ The organization awards a contract to the lowest bidder that, on the surface, appears to meet all of the requirements of the RFP. However, operations needs additional support for implementation and training, which was not part of the agreement. The company ends up having to invest more money to get staff up to speed, increasing the cost.

- ▶▶ The useful life of the product/solution in the company's operation varies from one location to the next, yet everything is uniformly financed on an extended program. Operations is now faced with products/solutions that are functioning — or not — past their useful life. The cost to repair or upgrade is now out of budget and the total cost of operation now far exceeds the cost of new products/solutions.
- ▶▶ An OEM brings a highly efficient asset to market, but due to the rigid financing structure contracted on previous assets, the company cannot cost-effectively replace their current equipment. Lacking a collaborative environment, the company fails to consider market variables or perform effective "what-if" scenarios.

Disconnected manual systems not only hamper finance, operations, and procurement, but also impact marketing and sales as well. "With siloed systems, you miss out on huge opportunities to ensure that marketing and sales are informed about quality and availability of products as they plan promotions and explore sales opportunities," Franzetta said.



## THE ROLE OF THE CFO IN BREAKING DOWN SILOED PROCESSES

Executive support and leadership are critical to bridging the gap that exists among operations, finance, and procurement, which are accustomed to working independently. “The challenge is part process, part culture,” said Jimmy LeFever, Senior Research Director, The Hackett Group, a consultancy. “No one should view himself as a one-person band, and that attitude has to come from the top down.”

According to *The Deloitte Global CPO Survey 2016*, 96% of CPOs emphasize the importance of their relationship with the CFO, 94% say it is important to partner with the CEO, and 78% stress their relationship with the COO.

With a comprehensive view of the company’s

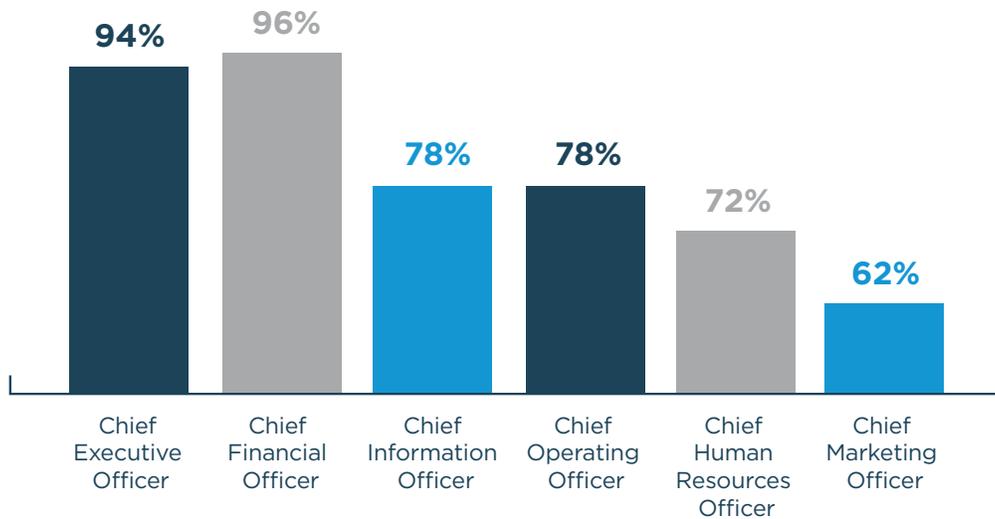
current and future capital requirements, the CFO is the natural leader of this initiative. Senior finance executives regularly have cross-departmental interactions and are privy to the broader needs and business goals of the organization.

“CFOs are the organizational leaders capable of connecting the various departments and stakeholders and focusing everyone on profitability,” said Tom Toton VP of Sales, Capital Equipment Solutions, Corcentric.

As the financial gatekeepers, CFOs provide the funds and the processes necessary to pay the bills and also collect on any early payment discounts available. They are trained to have an eye not only on the fixed financing impact of programs, but also to consider the

## CPOs continue to emphasize the importance of relationships with the CEO and CFO

Importance of business partnering with other members of the C-suite



Source: The Deloitte Global CPO Survey 2016

total cost, fixed and variable, and how programs will move the business forward.

CFOs are often the primary risk managers for their organizations, so they are critical to evaluating the risks and rewards of investments and supplier relationships. Senior finance executives are also well-positioned to help stakeholders become more aware of how their decisions impact the bottom line and the company's risk profile.

Operations needs to communicate their specific needs and wants and make the case for how an investment will contribute to keeping the company not just running, but financially sound and profitable. Operations also has to clearly define variable operating

costs, and the efficiency gains of new assets. If there is a preferred supplier, operations needs to communicate their reasons to both procurement and finance. They also need to make the cases to finance when their preferred supplier has a higher fixed cost but will result in lower variable expense.

Procurement needs to balance seeking the lowest price with the ability to source and purchase the proper equipment to ensure the company is able to effectively serve customers and maximize profit. The focus should always be on total cost, and the finance team can assist operations and procurement in making these determinations. The terms of the contract can make a major difference in the return on investment, so collaboration among all parties is essential.

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## THE BENEFITS OF AN UN-SILOED APPROACH, AND THE TOOLS NEEDED

Providing visibility into the entire process — from the initial request from operations to the procurement-driven sourcing activities — drives more value-driven decision-making and a more strategic use of funds.

A better understanding of the big picture moves the focus beyond getting the least expensive deals. “Lowest up-front cost doesn’t necessarily mean lowest total cost,” Corcentric’s Gaskins noted. “Data and visibility make people feel empowered and enables them to see how their decisions and performance impact other areas of the business.”

Solutions that better align with the organization’s needs and business model produce ROI not just for the department, but for the entire organization. Rather than making purchasing decisions based on high-level information, un-siloed decision-making addresses the necessary details to find the right fit. Replacing departmental-level decision-making with

corporate-level goals keeps stakeholders focused on overall profitability.

Aligning departmental and corporate goals eliminates “my expense/need versus your expense/need situations”, Gaskin noted.

Breaking down the silos also reduces duplication of investment and reduces the likelihood of purchasing systems with unnecessary inefficiencies. “With greater visibility into the end-to-end processes, there is less of a chance you will be investing in tools and processes that introduce complexity without optimizing the overall process,” said Jeff Nourie, Principal, The Hackett Group.

Integrated, cloud-based solutions are at the heart of leveraging data across the organization. The cloud has a number of key advantages, including increasing real-time visibility into data across the



enterprise, reducing rekeying and errors, and providing a complete picture of the business from a single, unified platform.

With integrated processes and technology, it is easier to make the right choice of supplier, set the terms of the agreement to benefit the entire organization, and hold the supplier accountable for meeting the conditions.

“Disconnected systems make it more difficult to see the true opportunities for growth or cost optimization,” said The Hackett Group’s LeFever. “When your systems and processes are siloed, you can’t achieve nearly the same ROI as you can with integrated solutions.”

## **CONCLUSION:** BREAKING DOWN SILOS ENHANCES ROI AND PROFIT

Breaking down business silos opens up opportunities to save money, drive efficiency, and improve decision-making. Un-siloed approaches enable organizations to drive a higher ROI on any products or services they are looking to bring into the company.

Decisions made strictly on what works for operations, finance, or procurement individually are short-sighted and can put the company’s profitability at risk. The best decisions are collaborative, data-driven, and keep the focus on the company’s overall business goals.

When operations proposes acquiring a new product or service, they should have their eyes wide open as to how it will impact profitability.

Procurement needs to understand how the new product or service will be used so that they can make a decision that is based on total cost, not just the lowest cost.

Finally, finance can work with their colleagues to help them calculate total cost, determine the impact on the balance sheet, and make investments that will move the company forward. When everyone has clear visibility into how their decisions affect the company’s future, better decisions result.

**Key takeaways** from this white paper include:

- ▶ When decision-making is focused solely on the cost of acquisition, organizations can overlook characteristics such as quality, availability, and usability that can add to the total cost.
- ▶ CFOs play a central role in bringing procurement and operations together to evaluate the total cost of any investment.
- ▶ Collaboration tools and cloud-based solutions can bridge business silos and lead to more effective decision-making that is focused on organizational, not just departmental, goals.

# About the Sponsor

**Corcentric** is a leading provider of procurement and finance solutions that transform how companies purchase, pay, and get paid. Corcentric's procurement, accounts payable, and accounts receivable solutions empower companies to spend smarter, optimize cash flow, and drive profitability. Since 1996, more than 6,000 customers from the middle market to the Fortune 1000 have used Corcentric to unlock new potential within their enterprise.

Learn more at [corcentric.com](https://www.corcentric.com).

